FINANCIAL TIMES

World Business Newspaper http://www.FT.com TUESDAY MAY 12 1998

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Gold production resumes in Spain after 200 years
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Growing challenge to traditional business
Tony Jackson, Page 14

Debt relief
When statistics can be grotesquely misleading
Martin Wolf, Page 18

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WORLD NEWS

Populist Estrada seems set for poll victory in Philippines

Former film star Joseph "Erap" Estrada, the populist Philippine vice-president with a self-confessed history of hard drinking and womanising, last night looked set to replace Fidel Ramos as the next president, according to early election returns and exit polls. Unofficial returns indicated Mr Estrada had established a commanding lead over administration candidate José de Venecia. Page 20

EU and US argue over aviation
A war of words between Brussels and Washington over the regulation of transatlantic aviation alliances worsened when the European Commission hit back at US allegations that it risked pushing up fares. Page 7

EBRD front-runner named
Horst Köhler, a former German financial official, emerged as the front-runner for the presidency of the European Bank for Reconstruction and Development. Page 2

S African car exports boost
South African vehicle exports will increase fourfold next year since VW of South Africa has been asked by its German parent company to supply R6bn ($1bn) worth of Golfs to the UK. Page 7

Vorsprung dürch biotechnik
Germany's largest car makers are planning to combine forces with energy companies and the government in the development of more fuel-efficient and environment-friendly vehicles. Page 3

Greek bank workers strike
Workers at state-controlled banks in Greece staged a one-day strike in protest at the government's plan to privatise the second biggest commercial banking group, Ionian Bank. Page 2

Kosovo patrol attacked
Albanian rebels in Serbia's Kosovo province attacked a police patrol near the regional capital of Pristina, raising fears that the conflict will spread from rural areas. Page 4

Pilots blacklist Schipol
Ifalpa, the international airline pilots' association, has put Schiphol airport on a safety blacklist, saying measures to limit noise can make it dangerous. Page 4

UK beef exports boost
European Union farm ministers will next month consider ending a ban on beef exports from mainland Britain, raising hopes that exports could start later this year. Page 12

Risk from food imports
Increasing food imports into the US has exposed Americans to more than 81m cases of foodborne illness each year, according to a report by Congress's General Accounting Office. Page 7

EU and Poland disagree
A disagreement over Poland's management of European Union aid funds is threatening to sour relations after the start of Poland's membership talks. Page 3

Iran appeals to Islamic states
Iran, fighting US attempts to isolate it, is wooing the former Soviet republics of the oil-rich Caspian region by appealing to their Islamic roots. Page 5

EU natural gas directive
European Union energy ministers formally adopted a directive forcing EU states to open a third of the EU's $100bn-a-year natural gas supply market to competition. Page 4

BUSINESS NEWS

DuPont to sell off Conoco oil and gas business to focus on life science deals

DuPont, US chemicals group, is to dispose of its mainstay Conoco oil and gas business and spend the proceeds on expanding its life science operations. Divestiture will start with an initial public offering this year of 20 per cent of the world's ninth largest oil producer. Page 21; Lex, Page 20

Credit Suisse First Boston, Swiss-American investment bank, is close to agreeing the acquisition of Banco Garantia, Brazil's leading investment bank, in a deal expected to be worth more than $1bn. Page 23

KNP BT, Dutch packaging and distribution group, agreed a Fl 3.4bn ($1.7bn) sale of its packaging division to CVC and Cinven, UK venture capital companies. Page 21

Hans-Joerg Rudloff, one of the architects of the euromarkets, has been appointed de facto chairman of Barclays Capital, investment arm of the UK bank. Page 21; Observer, Page 19

PPG International, US paints and glass group, has joined forces with Donaldson, Lufkin & Jenrette, US investment bank, to counter Akzo Nobel's £1.83bn ($3bn) agreed bid for Courtaulds, UK coatings, fibres and chemicals maker. Page 21; Lex, Page 20

Endesa, Spanish power group that will be fully privatised next month in a Pta1,366bn ($9.1bn) offering, is to cut its labour force by 36 per cent over four years. Page 24

Esprit Telecom, one of the fastest growing of Europe's alternative telecoms operators, is to buy Plusnet, a subsidiary of Thyssen, in a DM315m ($176m) deal. Page 26

SGS-Thomson Microelectronics, European semiconductor manufacturer, is to spend $1bn on new plants in France and Italy. Page 24

Intel, US microprocessor group, opened Europe's first advanced processor production factory in Leixlip, Ireland, at a cost of $1.3bn.

Fidelity Investments, the US fund management group, is to enter the Australian market through a tie-up with trustee company Perpetual Funds Management. Page 22

Inmet, Canadian mining company, sold its 50 per cent stake in the Antamina copper/zinc project in Peru for C$70m ($49m). Page 24

Indonesia's latest agreement with its international bank creditors marks a "significant achievement" which should underpin the rupiah, according to the International Monetary Fund. Page 6

Seoul's stock market fell by 3.5 per cent to a 1998 low of 361.58 points as Moody's Investor Services, the US credit agency, downgraded the ratings of 19 South Korean banks. Page 6

Anglovaal, South African mining and industrial conglomerate, announced a long-awaited restructuring which will end 65 years of control by the Menell and Hersov families. Page 21; Lex, Page 20

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
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WORLD MARKETS

STOCK MARKET INDICES		
New York: Lunchtime		
Dow Jones Ind Av	9136.96	(+81.71)
NASDAQ Composite	1884.14	(-0.23)
Europe and Far East		
CAC40	4017.24	(+110.88)
DAX	5341.69	(+1.60)
FTSE 100	6028.3	(+58.5)
Nikkei	15381.90	(+232.90)
US LUNCHTIME RATES		
Federal Funds	5.43%	
3-mth Treas Bills: Yld	5.131%	
Long Bond	101⅜	
Yield	6.022%	
OTHER RATES		
UK: 3-mth Interbank	7⅜%	(same)
UK: 10 yr Gilt	110.015	(110.031)
France: 10 yr OAT	103.54	(103.67)
Germany: 10 yr Bund	107.16	(107.22)
Japan: 10 yr JGB	111.11	(111.22)
NORTH SEA OIL (Argus)		
Brent Dated	$14.53	(14.15)

GOLD		
New York: Comex		
(May)	$300.3	(299.8)
London		
	$301.15	(299.85)
EXCHANGE RATES		
Dollar		
New York: Lunchtime		
£	1.632	
DM	1.7775	
FFr	5.9605	
SFr	1.4863	
Y	132.765	
London		
£	1.6306	(1.6365)
DM	1.7765	(1.7880)
FFr	5.9583	(5.992)
SFr	1.4825	(1.4773)
Y	132.71	(132.835)
Tokyo Close		Y 133.05
Sterling		
DM	2.8966	(2.9045)

Bahrain	Din1.300	Belgium	BFr60	Cyprus	C£1.25
Denmark	DKr21.00	Estonia	EEK30.00	Finland	FM15.00
France	FFr12.50	Germany	DM4.75	Greece	Dr450
Hungary	Ft400	Iceland	IKr285	Italy	L3400
Jordan	JD1.75	Kuwait	Fils750	Latvia	Lat1.65
Lithuania	Lit11.00	Luxembourg	LFr60	Morocco	Dh20.00
Netherlands	Fl5.00	Nigeria	N128.00	Norway	NKr20.00
Oman	OR1.75	Poland	Zl 10.00	Portugal	Esc320
Qatar	QR12.00	S.Arabia	SR13.00	S.Africa	R12.00
Spain	Pta275	Sweden	SKr22.00	Syria	SP 90.00
Switzerland	SFr3.50	Turkey	TL2.000	UAE	Dh13.00

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$57BN MERGER OF US LOCAL TELEPHONE COMPANIES SPARKS COMPETITION CONCERNS

Fears over SBC-Ameritech deal

By Richard Waters in New York and Richard Wolffe in Washington

The planned $57bn merger of SBC Communications and Ameritech, two of the biggest US local telephone companies, ran into immediate political turbulence in Washington yesterday hours after it was unveiled yesterday.

The all-stock takeover would leave SBC, a company based in San Antonio, Texas, with a stock market value of more than $120bn, a third larger than AT&T, its next biggest rival. It would also give it around a third of the $100bn market for local calls, the most profitable part of the US telecoms industry.

The plan, which would mark the latest in a string of giant corporate mergers since Congress passed a landmark telecommunications law two years ago, was greeted with concern on Capitol Hill. John McCain, chairman of the senate commerce committee, said: "Companies consolidate when they cannot compete, and consolidation without competition can hurt consumers."

The acquisition of Chicago-based Ameritech echoes the $66bn combination of NationsBank and BankAmerica, a similar union between two regional giants to form a company with the muscle and reach to compete nationally in the US and, increasingly, internationally.

Edward Whitacre, SBC chairman, said the wave of mergers in the telecoms industry was likely to leave "a limited number of national and international operators". Richard Notebaert, Ameritech chairman, added that the combination would create "a global growth platform" that would leave the two in a stronger position to take on rivals in other markets around the world.

SBC has already turned itself into the largest of the five US Baby Bells, or local exchange companies, through the acquisition last year of Pacific Telesis, the local carrier in most of California. By adding Ameritech, it would extend to 13 states.

Mr Whitacre denied the deal amounted to a reassembly of the national Bell system, which was broken apart under a consent decree between AT&T and the Justice Department 15 years ago. That agreement created seven Bell companies in the local market, leaving AT&T in the national long-distance business.

Mr McCain called yesterday for an overhaul of the legislation that was meant to open local telephone markets to competition.

In an apparent attempt to calm concerns in Washington, Mr Whitacre also announced a plan to attack the local telecom markets in 30 cities outside the regions served by the two companies.

Stock markets heartened by US mergers

World stock markets took heart from the wave of mergers and restructurings in the US, with the Dow Jones Industrial Average gaining more than 100 points in the first few minutes of trading on Wall Street, writes *Philip Coggan*.

By 1pm New York time, the Dow was 81.21 points higher at 9,136.96.

European markets were lifted by Wall Street's performance and by a steady day on Asian bourses, where Tokyo stocks were encouraged by the proposed link between motor groups Nissan and Daimler-Benz.

In Paris, the CAC 40 index closed above 4,000 for the first time, while Helsinki and Stockholm also set all-time highs.

In London, the FTSE 100 index regained the 6,000 level, rising 58.5 to 6,028.3. World stocks, Page 42

The share prices of other Bells thought to be potential takeover candidates rose yesterday as Wall Street anticipated a continuation of the merger wave. US West, whose territory in the Rocky Mountain states is surrounded by SBC and Ameritech, has long been seen as a natural extension for SBC. BellSouth, which dominates the South East, and GTE, a large independent carrier, also both rose sharply.

SBC's stock rose $3 yesterday morning, to $46⅞, while its shares fell $2 ¹⁄₁₆ to $39 ¹⁄₁₆ on concerns about the likely dilution to its earnings per share.

International reach, Page 23
Trying to connect you, Page 19
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A fistful of brand new euros

French finance minister Dominique Strauss-Kahn holds some of the first euro coins as they are minted in Pessac. Between now and the end of 2001 the 11 European Union countries in the euro-zone will produce 70bn coins, which go into circulation in place of national currencies in 2002. Page 20 Picture: Reuters

Daimler in talks on buying stake in Nissan truck unit

By Paul Abrahams in Tokyo and Haig Simonian in Detroit

Daimler-Benz and Nissan yesterday said they were in negotiations that could lead to the German industrial group acquiring up to 33.4 per cent of Nissan Diesel, Japan's fourth-largest truckmaker.

The move would give Daimler-Benz effective control of Nissan Diesel, the quoted subsidiary of the Nissan motor group which has 19 per cent of the Japanese truck market and operations in China and the Middle East.

The news of the talks follows last week's announcement of Daimler-Benz's merger with Chrysler of the US.

A deal would be one of the most important acquisitions by a foreign group of a Japanese industrial company. It would demonstrate an increased willingness among Japanese corporations to sell assets overseas and could herald similar moves by foreign buyers. About 40 per cent of the main section of the Tokyo stock exchange is trading below book value.

A sale of most of Nissan's stake in Nissan Diesel would be unlikely to raise large amounts of cash. The subsidiary's market capitalisation last Friday, before rumours of the deal hit the market, was Y37.7bn ($284m).

Jürgen Schrempp: timing could be a few weeks or a few months

The group is heavily indebted, as are some of its dealerships. Nissan Diesel is expected to post net losses of Y2bn this financial year on sales of Y298bn.

Daimler-Benz said the talks might not necessarily end in it taking a stake. Negotiations had also covered shared infrastructure, dealer networks and components. The project could also involve joint vehicle projects at a later stage. In an interview, Jürgen Schrempp, Daimler-Benz chairman, said the discussions were well advanced, but had not ended.

"The timing could be anything from a few weeks to a few months. But if it doesn't happen within this year, it won't happen at all," he said.

The Nissan group's current poor profitability is a problem because its big UK and US production expansions have left it with huge debts of about Y4,000bn.

Co-operation between Japanese and European commercial vehicle makers has been increasing in recent months. Volvo, a leading maker of heavy trucks, and Mitsubishi have announced plans to co-operate on components and on developing medium-weight trucks. Isuzu, another leading Japanese trucks group, in which General Motors of the US has a big stake, last year started building light trucks under contract at Leyland Trucks in the UK. The future of that agreement has been called into question after last month's acquisition of Leyland Trucks by Paccar, the big US truckmaker.

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Indian nuclear tests may draw US sanctions

By Amy Louise Kazmin in New Delhi and Farhan Bokhari in Islamabad

India yesterday carried out its first nuclear tests for 24 years, provoking a robust response from Pakistan and raising the possibility of US sanctions.

Atal Behari Vajpayee, prime minister of the Hindu nationalist-led government, said there had been three tests in the western desert state of Rajasthan. They involved a fission device of the type that can be used as a tactical nuclear weapon, a low yield device and a thermo-nuclear device.

Mr Vajpayee said there had been no release of radioactivity into the atmosphere.

Professor Norman Dombey, professor of theoretical physics at Sussex university in England, said the fission device tested yesterday was probably a trigger for a thermonuclear weapon.

Gauhar Ayub Khan, Pakistan's foreign minister, told parliament: "Pakistan's defence will be made impregnable against any Indian threat, nuclear or conventional." He stopped short of saying whether Pakistan would follow India with a nuclear test of its own, but said: "Pakistan reserves the right to take all appropriate measures for its security."

Last month, Pakistan's top nuclear scientist, Abdul Qadeer Khan, said Pakistan could conduct a nuclear test and scientists were only waiting for government instructions to do so.

China's state news agency reported the tests but there was no official response. Last week Beijing reacted angrily to comments by George Fernandes, India's defence minister, that China was India's chief strategic threat.

The White House said it was "deeply disappointed". India's tests will almost certainly draw economic sanctions from the US. Under an American non-nuclear proliferation law, Washington is mandated to halt all bilateral aid to any non-nuclear weapons power that conducts a nuclear test.

India and Pakistan have fought three wars since partition 50 years ago. Last month, Pakistan test-fired a medium range missile with a 1500km range.

India exploded its first nuclear device in 1974. No further tests have been conducted since then. India has refused to sign the Comprehensive Test Ban Treaty, on the grounds that it would create a nuclear "apartheid", dividing the world between nuclear powers and non-nuclear states.

The Bharatiya Janata party, which came to power at the head of a fractious coalition in March, had declared in its election manifesto that it reserved the right to introduce nuclear weapons.

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German in lead to head EBRD

By Stefan Wagstyl and Charles Clover in Kiev

Horst Köhler, a former senior German financial official, emerged yesterday as the front-runner for the presidency of the European Bank for Reconstruction and Development.

Mr Köhler, chairman of Deutscher Sparkassen und Giroverband, the association of savings and loans institutions, was expected to be nominated as a candidate by the German government soon, possibly before the EBRD ends its annual meeting in Kiev today.

His three leading rivals have already been officially nominated by their governments: Philippe Lagayette of France, the former head of Caisse des Dépôts et Consignations, Pedro Solbes, a former Spanish finance minister, and Paolo Savona, a former Italian industry minister.

France has promoted Mr Lagayette strongly since last summer, when the bank started looking for a successor to Jacques de Larosière, another Frenchman, who retired in January. But the angry reaction from many European Union states to France's behaviour in the dispute over the presidency of the future European Central Bank seems to have persuaded Paris to cool its campaign for Mr Lagayette.

A French official in Kiev said the new EBRD president had to be competent but he did not have to be French. German officials declined to name Mr Köhler but said they would nominate a "strong candidate".

Klaus Regling, Germany's chief representative at the Kiev meeting, said: "There is nothing in the EBRD charter which says it must be a Frenchman."

EU countries hope to settle the EBRD presidency promptly to make up for their embarrassment over the ECB. Britain, as current EU president, is co-ordinating the discussions with a view to declaring a common EU candidate at the next EU finance ministers' meeting on May 19. This candidate would be put to the EBRD board. Other EBRD member governments would also be free to nominate candidates but in practice the EU, with a majority of votes, would almost certainly secure the appointment of its candidate.

Success for Mr Köhler would mark a diplomatic coup for Germany, which since the second world war has rarely held the top jobs at big international institutions. However, it has played a growing economic role in eastern Europe in the 1990s.

An important early task for the new president will be reconciling arguments among the EBRD's shareholder countries about the future direction of lending.

The US, the UK and Germany yesterday urged the bank to concentrate on expanding lending in Russia and other former Soviet republics instead of the more advanced economies of central Europe. Mr Regling told the meeting that the EBRD should focus on countries in the early stage of transition where risks were often high for commercial banks.

"After all, this is what justifies its existence as an official multilateral institution."

However, other continental countries, led by France, warned against concentrating the bank's funds in high-risk states.

Jacques de Larosière, former EBRD president, Philippe Maystadt, board chairman, and President Leonid Kuchma of Ukraine, where the annual meeting is taking place — Reuters

Greek workers strike over bank sale plans

By Kerin Hope in Athens

Workers at state-controlled banks, which dominate Greece's financial sector, staged a one-day strike yesterday in protest at the Socialist government's plan to privatise the second biggest commercial banking group.

Greece is trying to accelerate structural reforms in its bid for membership of the single European currency by January 1 2001.

But the decision to sell a controlling stake in Ionian Bank rather than approve a merger with its parent group, Commercial Bank, has provoked a confrontation with Ionian's militant union.

The government agreed in March to reduce the public sector's role in the economy under the terms of the drachma's entry into the European Union's exchange rate mechanism. The banking sector, in which inefficient state groups have a market share of more than 70 per cent, is in urgent need of modernisation.

Workers at Ionian said yesterday they would continue the strike indefinitely. The General Confederation of Labour, the biggest Greek trade union grouping, plans to call a one-day general strike later this month to support their demand for a merger with Commercial in which Ionian's 3,000 workers would keep their jobs.

The economy ministry has already canvassed several private Greek banks to find a buyer willing to preserve as many jobs as possible at Ionian. The leading contender is Alpha Credit Bank, the biggest Greek private bank, which has a 15 per cent market share and is keen to expand.

The sale has to be approved by Commercial's board of directors, but the ministry said it would be carried out through a tender offer on the Athens stock exchange later this year.

The proceeds would be used to boost the balance sheet of Commercial, which holds a 62 per cent stake in Ionian. The economy ministry has proposed putting the Commercial group up for sale as well, but no timetable has been set because of opposition from Socialist critics in the cabinet.

Three more state-controlled banks are due to be privatised this year. A third attempt will be made to sell Cretabank, which is still trying to recover from an $200m embezzlement scandal in the mid-1980s.

Bank of Central Greece, only marginally profitable, will be offered for sale for a second time.

However, General Hellenic Bank, which is controlled by the Greek army's pension fund, has already arranged the sale of a strategic stake to Interamerican, the Greek financial services group, as well as placing shares with institutional investors abroad.

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Czech securities watchdog starts to bare its teeth

'Foreigners see us as a den of thieves and I want to do something about it,' says Jan Müller, the commission's new chief. **Stefan Wagstyl** and **Robert Anderson** report

His budget is so small that he has to provide his own fax and mobile phone. But in his first month, Jan Müller, chairman of the newly created Czech Securities Commission, has already made a big impact on the country's scandal-ridden financial markets.

Pressure from the commission last month led to the resignation of Jiri Franc, the general secretary of the Prague Stock Exchange. While Mr Franc had not been accused of any impropriety, commission officials indicated they wanted a new man at the helm.

The commission has also intervened in a dispute between the exchange and two of its biggest members, Atlantik Financial Markets and BH Securities. The brokers are challenging the bourse's decision to suspend them for six months for alleged misuse of clients' funds and for off-exchange trading. Separately, the Securities Commission has frozen the bank accounts connected with two investment funds following allegations that the managers were involved in asset-stripping at the expense of client investors.

Mr Müller is under no illusions about how difficult it will be to restore the battered reputation of Prague's financial markets. Once foreign investors' favourite east European destination, Prague has in the last two years been swamped with allegations of insider dealing, asset-stripping, and less than transparent pricing. Government efforts to launch a clean-up, which started last year, have been hampered by political opposition from friends of the financial dealers who have benefited most from the lack of regulation.

Mr Müller, a vocal critic of Czech regulation, said only a sense of duty persuaded him to give up his well paid job at a German bank to head the commission. "I know foreigners see us as a den of thieves and I want to do something about it. But I have negligible power to regulate the market."

At the root of the trouble is the chaotic ownership structure which emerged from the mass privatisation programme of the early 1990s, in which millions of Czechs were sold vouchers for shares in state-owned enterprises.

Quick-witted financiers grabbed control of substantial chunks of companies by inviting fellow citizens to pool vouchers in national investment funds. While some were run honestly, many others were used for the self-enrichment of the managers.

Some of the worst abuses were curbed, but the laisser faire policies of Václav Klaus, prime minister for seven years until last autumn, continued to give financial companies a free hand.

Among the biggest beneficiaries were the large state-controlled banks that built up commanding positions by operating as both lenders to industry and substantial shareholders through in-house investment funds.

Mr Müller said it could take five years for these structures and the attitudes they reflect to be reformed. However, foreign bankers say the Czech Republic at last seems serious about change.

As Alain Pilloux, responsible for the Czech Republic at the European Bank for Reconstruction and Development, says: "Everybody agrees the Czechs must restore the rule of law as far as financial operations are concerned."

The government and Securities Commission are planning to overhaul stock exchange rules, including the introduction of full reporting of all trading. The goal is to capture more information on more of the 90 per cent of equity transactions which currently takes place off the exchange. Eventually, the authorities would like to ban off-exchange dealing altogether.

There are also plans for a takeover panel to regulate the transfers of large share stakes.

Even more significant are long-running plans for full privatisation of the three state-controlled banks – Ceska Sporitelna, Ceskoslovenska Obchodni Banka and Komercni Banka. The interim government is making some pre-privatisation preparations but the decision will be left to the election victors.

The centre-right parties insist they will press ahead with reform if they win. The opposition Social Democrats are less committed to rapid bank privatisation but they do plan to sell the state's stakes at some point. Milos Zeman, the Social Democrats' leader, wants to punish "economic criminality".

So even if there is scope for backsliding, financial market reform is likely to stay on the political agenda.

As Ivan Pilip, finance minister, said, "It's not perfect, but we have made a start."

EU tussles with Poland over aid

By Christopher Bobinski in Warsaw

A disagreement over Poland's management of European Union aid funds is threatening to sour relations soon after the start of Poland's EU membership talks, and has raised doubts in Brussels about Poland's ability to manage future aid flows.

At issue is around Ecu500m ($555m) worth of EU aid funds allocated for 1998 and 1999 and payments expected to run at Ecu500m a year from 2000 until Poland formally joins the EU. Financial flows to new members will increase further once they are in the EU.

The European Commission's suggestion that the 10 former communist applicant countries establish special units to handle the EU funds within their finance ministries has sparked a turf war between Poland's finance ministry and Committee for European Integration (KIE). The latter, which is responsible for the aid programmes, has been arguing it is best suited to act as cashier as well.

Poland has been a recipient of the EU's Phare aid programme since 1990. The programmes have always been supervised locally but the funding has been managed by Brussels, which now wants to start transferring financial responsibility to the applicant countries.

Last week Hans van den Broek, the EU commissioner responsible for external relations, repeated Brussels' view on the issue of the special units to the Poles and warned that access to structural funds in the future would be hampered if they were not established. In a separate warning he said that Poland could lose its Ecu212m Phare allocation for 1998 unless KIE presented concrete spending projects for approval in Brussels by May 15.

To Brussels' dismay, the tussle in Poland has also turned into a political issue between the Freedom Union (UW), the junior coalition partner whose leader, Leszek Balcerowicz, is finance minister, and the Solidarity Electoral Action (AWS), which appointed Ryszard Czarnecki, from the rightwing Christian National Union (ZChN), to head KIE.

Christopher Hum, British ambassador in Warsaw, reflected the EU's concern at the weekend when he said: "Nothing could be more damaging than that matters of vital substance – for example the mechanism for handling resource transfers from the Union – should become the subject of internal politicking."

Mr Czarnecki said later that he agreed the programming and financial functions could be separated but declined to accept that the finance ministry should be responsible for the latter. Instead he suggested that the prime minister's office, which is dominated by AWS supporters, could take over the financial functions.

Sorting hawks from doves

The new executive board defies the usual classification, writes **Wolfgang Münchau**

Second-guessing the likely actions of the new European Central Bank and its governing council has become one of the main preoccupations of financial analysts, since the appointment of Wim Duisenberg and his six-strong team at the European Union summit early this month.

In their hearings at the European Parliament last week, the six nominees of the ECB's executive board presented a stance that defies the usual classification of central bankers into hawks and doves. They are all hawkish about the Maastricht treaty's central demand: the preservation of price stability. On this point, they will not – and cannot – compromise.

Yet, they all firmly denied suggestions that they would run persistent high interest rates to establish credibility, err on the side of caution, or simply stress their independence from politicians.

Otmar Issing, Wim Duisenberg and Tommaso Padoa-Schioppa

Goldman Sachs has classified 13 of the 17 members of the ECB governing council – the six members of the directorate and the 11 presidents of the national central banks – as hawks. The other four, including curiously, Hans Tietmeyer of the Bundesbank and Tommaso Padoa-Schioppa, the Italian board nominee of the ECB, are deemed to be neutral.

Otmar Issing, the Bundesbank executive board member, nominated for an eight-year term at the ECB, is normally thought of as one of the most hawkish central bankers in the world. Yet, Mr Issing had no qualms telling MEPs that a successful monetary policy – one that secures price stability over the medium-term – would lead to more jobs. "Price stability and the resulting low interest rates will be instrumental in securing higher levels of investment, increased

ECB watch

growth and new jobs."

Mr Issing is almost certain to become the chief economist of the ECB. As the board member with the longest term of office – except for Wim Duisenberg, the ECB's president who has indicated he will retire early – his influence will be formidable. His approach is not so much hawkishness, in the sense he would err on the side of higher interest rates if in doubt, but consistency in approach.

In his first public speech since the confirmation hearings, Mr Issing defended the use of monetary targets, even though he and his colleagues favour a mixed approach in the early years – in which monetary targeting will be accompanied by an inflation forecast.

By trying to follow in the Bundesbank's footsteps, the ECB hopes to avoid a situation in which it has to act hawkishly.

Germany combines forces on green car

By Ralph Atkins in Bonn

Germany's largest car makers are planning to combine forces with energy companies and the government in the development of more fuel-efficient and environment-friendly vehicles, including using alternatives to petrol or diesel engines.

The transport ministry yesterday announced a joint initiative to combine know-how and avoid unnecessary costs involved in developing competing technologies.

The project is backed by BMW, VW, Daimler-Benz and MAN, representing vehicle manufacturers. Other participants are Shell and RWE, the energy groups, and Aral, Germany's largest chain of petrol stations. The initiative reflects the strength of Germany's green lobby and concerns about retaining the technological edge enjoyed by the nation's car industry.

Matthias Wissmann, transport minister, said the objective of a "two-pronged strategy" would be to protect Germany's international competitiveness against the background of demands for more environment-friendly transport systems.

First, the group would seek to encourage the development of existing petrol and diesel technology, which is expected to see several manufacturers introducing "in the next decade" cars which can travel 100km on three litres of fuel or less.

Second, Mr Wissmann said the participants would seek by the end of next year to identify objectively up to three alternative energy sources on which to concentrate efforts. The ultimate aim would be to agree a join strategy.

The new energy technologies selected would be drawn from a list that included internal combustion engines running on natural gas or hydrogen, electric engines, or hybrid motors combining a variety of technologies.

No check to Belgian financial merger mania

Belgium has undergone one of the swiftest and most sweeping restructuring of any EU country and consumers are having to learn some unfamiliar brand names. **Neil Buckley** reports

As the French insurance giant Axa-UAP moved last week to take full control of its partially-owned subsidiary Royale Belge, the message of Axa chairman Claude Bébéar already sounded familiar to Belgian ears.

The future success of Belgium's second biggest insurer – and one of its oldest companies – could better be guaranteed within the heart of a larger, genuinely European group, he said.

The previous weekend's decisions by EU leaders confirming the launch of the euro had, meanwhile, reinforced the French group's view that it had to think, and act, Europe-wide.

"All of Europe has become our 'domestic' market," said Mr Bébéar.

Royale Belge was only the latest Belgian financial group to decide – or have the decision taken for it – that it was too small to compete effectively in a single-currency Europe. Largely within the last year, Belgium has undergone one of the swiftest and most sweeping financial restructuring of any EU country.

All Belgium's "Seven Sisters" – its biggest seven banks – have rushed into marriages, through partnerships, alliances, or takeovers. Belgian consumers are having to learn some unfamiliar brand names.

Crédit Communal de Belgique, the municipally-owned bank that was Belgium's fifth largest by assets, began the process in 1996 by allying with Crédit Local de France to form Dexia group, one of Europe's top 25 banks. Bacob, Belgium's number seven, followed last summer, taking over Paribas Banque Belgium, number eight, and launching a new group named Artesia.

Banque Bruxelles Lambert, third largest, fell last November to a $4.7bn takeover by ING of the Netherlands. In February, Kredietbank, number two, unveiled a merger with Cera Bank, number six, and an insur-

€ Living with the euro

ance group, forming a new bancassurance giant, KBC.

Finally, Générale de Banque, the biggest, will hold another board meeting today on plans to merge with Fortis, the Belgo-Dutch financial services group which controls Belgium's fourth biggest bank, CGER-ASLK – even though Générale's management is unhappy with the plan.

The pattern has been similar in insurance. After swallowing Royale Belge last week, Axa-UAP will probably merge it with its other subsidiary Axa Belgium, the sixth biggest insurer. Snap, the mutually owned third biggest insurer, is being partially acquired by Dexia.

Much of the restructuring was probably inevitable in the long term. Although the total had fallen from 176 in 1980 to 141 in 1996, Belgium still had almost three times as many banks for its 10m people as neighbouring Netherlands did for 15m. And it had no banks comparable in size with its northern neighbour's ABN-Amro, ING or Rabobank; only Générale de Banque made it into Europe's top 100 by assets.

Senior officials and politicians including Philippe Maystadt, finance minister, and Alfonse Verplaetse, national bank governor, began encouraging the creation of a 'Grande Banque Belge' capable of competing Europe-wide.

At the same time, Belgium had higher percentage staff costs, with fewer inhabitants per bank branch than any of its near neighbours – only 566 per branch, compared with 2,277 in France and 5,308 in the UK, according to a study by Moody's Investors Service.

As much as Belgium's unions and rigid labour laws permit, restructuring is likely to lead to widespread branch closures, and streamlining of personnel.

"The mergers are just the beginning," said Alexandra Sleator of Moody's. "Now you have to take the pain." But if restructuring had to happen eventually, the looming single currency concentrated minds. A senior Belgian economist last week called the euro the "catalyst", and Ms Sleator agreed it had been a "big contributing factor". "It helped clinch a lot of things that might otherwise have been allowed to linger," she added.

Creation of bigger financial groups will also make them better able to shoulder the costs of the euro. The Association of Belgian Banks estimates conversion costs at BFr21.2bn ($580m) over the period 1996-2002 – or 3 per cent of profits. The loss of foreign exchange incomes, meanwhile, could be worth BFr21bn annually from next year, equivalent to a quarter of the banking sector's total BFr82.5bn pre-tax profits in 1995.

As consumers prepare to swap their Belgian franc chequebooks for euro chequebooks bearing unfamiliar names, and to buy their insurance from Axa instead of Royale Belge, they know the impact of the euro on their lives is only just starting to be felt.

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SERBIAN UNREST FEARS THAT CONFLICT WILL SPREAD TO TOWNS

Rebels in Kosovo attack police patrol

By Guy Dinmore in Belgrade

Ethnic Albanian rebels in Serbia's Kosovo province yesterday attacked a police patrol near the regional capital, Pristina, raising fears that the conflict will spread from rural areas to more ethnically mixed and densely populated towns.

Police said an armoured convoy was ambushed on a hill overlooking Pristina airport, 12km from the city. No casualties were reported. The incident took place on Kosovo's main east-west highway, which police have kept closed since last Friday because of rebel attacks along the military's main supply route.

Clashes were also reported on Sunday night in the western town of Klina. Police said they had killed several "terrorists" of the separatist Kosovo Liberation Army (KLA).

The KLA has used the two months since the last big police attack on its stronghold in the central Drenica region to distribute weapons smuggled from Albania to several thousand villagers ready to join the fight for independence.

Serbia's security forces have greater firepower in terms of artillery and armoured vehicles, but their lines of communication and supplies are coming under regular attack at night.

Serbian officials also accuse the KLA of attacking civilians, both Serbs and ethnic Albanians, seen to be collaborating with the government.

Hopes of starting a dialogue between Belgrade and political leaders of Kosovo's ethnic Albanian majority rest on a mission to the region by two senior US envoys. Richard Holbrooke, architect of the 1995 Bosnian peace accord, and Robert Gelbard held a second round of talks in Belgrade yesterday with Slobodan Milosevic, the Yugoslav president.

Mr Holbrooke told reporters afterwards the gap between Belgrade and the ethnic Albanian leadership was "very great". He said he would return to Pristina today for talks with Ibrahim Rugova, leader of the main ethnic Albanian party in Kosovo.

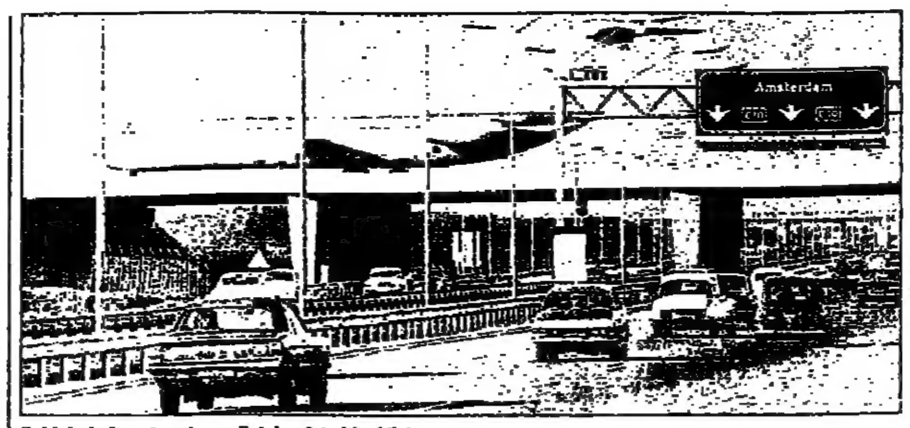
The official Yugoslav news agency Tanjug said Mr Milosevic had told the US envoy: "The policy of pressure should be replaced by a policy of equitable co-operation."

Mr Milosevic has rejected demands for foreign mediation in the crisis despite a decision by the US and its allies last weekend to impose a ban on new foreign investments in Serbia.

Diplomats said Mr Milosevic was holding out for concessions from the US that would allow Belgrade to end its international isolation and gain access to financial institutions.

The US negotiators have also failed to persuade Mr Rugova to denounce the KLA as a "terrorist" organisation.

About 150 people have been killed this year, with fresh casualties reported daily, and Serbs and ethnic Albanians alike are beginning to move their children out of Pristina.



Schiphol airport: put on pilots' safety blacklist

Turbulence over Schiphol

By Gordon Cramb in Amsterdam

Just when Amsterdam's Schiphol airport thought it had found a growth path which might placate environmentalists, it has come under attack from another direction. Ifalpa, the international airline pilots' association, last week put it on a safety blacklist.

The pilots said measures taken by Schiphol to limit the noise impact of arriving and departing aircraft make it dangerous during high winds, especially at night when the decibel curbs are toughest.

They maintained that they are at times expected to land from a direction which pits them against a stronger crosswind than would be acceptable at other European hubs. They reported difficulty in obtaining permission to use another runway, because that would take them over a more densely populated area.

Schiphol rejected the claims, pointing out that with four runways it offers a better choice of trajectory than most of Europe's airports. Although it had a preference system for which are used, pilots may always choose any runway if they think safety is in question, it added.

Still, the latest difficulty for the airport, Europe's fourth busiest passenger hub, is an indication of the tensions it faces in implementing a compromise accord over its near-term future. Under a deal reached with the government in March, it is able to add more than 30,000 take-offs and landings this year and 20,000 each year until 2003, when a fifth runway will be ready.

Last year it moved 349,500 aircraft, and had been facing a cap of 3 per cent on its growth, compared with a rise in demand each year of more than 10 per cent.

However, the deal required further noise abatement measures to reduce the number of homes worst affected from the present ceiling of 15,100 to 12,000. Among the consequences for the air transport industry is that flights using older, noisier jets faced increasingly punitive landing fees or an outright ban.

NEWS DIGEST

ENERGY MINISTERS' DECISION

EU states must open third of gas supply market

European Union energy ministers yesterday formally adopted a directive forcing EU states to open a third of the EU's $100bn-a-year natural gas supply market to competition.

The adoption came as ministers also endorsed plans to double the proportion of EU energy coming from renewable sources from 6 per cent to 12 per cent by 2010 – part of Europe's strategy to meet the Kyoto targets for reducing greenhouse gas emissions.

Ministers agreed in principle to the gas liberalisation plans last December. EU member states will now have to open at least 20 per cent of their gas markets, accounted for by the largest industrial energy users, by June 2000, rising to 28 per cent by 2005 and 33 per cent by 2010.

But officials expect the actual size of market opening across the EU to be much higher, with many member states going beyond their minimum legal requirements. That has already been seen with the electricity directive, agreed in 1996. Christos Papoutsis, EU energy commissioner, told ministers yesterday 60 per cent of the EU electricity market would be open to competition by next year – well above the 23 per cent required by the directive. **Neil Buckley, Brussels**

DEVELOPMENT AID

Kinkel warns on refugees

Klaus Kinkel, Germany's foreign minister, yesterday threatened to cut development aid to African and Asian countries which obstruct the return from Germany of rejected asylum seekers.

His comments in an interview with Bild, the daily newspaper, surprised Carl-Dieter Spranger, the Bonn minister with responsibility for development aid, who said he was "baffled" by Mr Kinkel's comments. "We cannot simply turn the screw on development aid," he said.

The foreign ministry reckoned about 70,000 people who have fled African and Asian countries may be affected, of whom 9,000 have destroyed their official papers and refused to give their nationality.

Officials said the response of some countries had improved markedly recently but "significant deficits" remained. Publishing the list of worst offending countries remains an option, the foreign ministry indicated.

"Where there is poor co-operation in this area, the possibility of cutting of striking out development aid must be brought into use," Mr Kinkel said. **Ralph Atkins, Bonn**

FUTURE OF EURO

Fund managers optimistic

European fund managers believe the euro will be much stronger than either the dollar or the yen over the next 12 months, according to a monthly poll.

Some 41 per cent of fund managers – those polled controlled assets of more than £3,415bn ($5,700bn) around the world – favoured the euro over any other big currency when surveyed in the first week of May in a poll conducted by Gallup for Merrill Lynch, the US investment bank.

In April just 25 per cent of those questioned chose the euro over the dollar, yen or sterling, while 58 per cent believed the dollar would be much stronger.

Increased favour for the euro was particularly marked among UK managers, with assets of some £1,342bn, whose support rose from 20 per cent in April to 45 per cent in May.

Most of the change was due to the view that euro-zone interest rates were likely to rise while those in the UK had peaked, said Trevor Greetham, global strategist for Merrill Lynch. **Jane Martinson, Investment Correspondent**

NAZI GOLD

'Fillings' at Deutsche Bank

About 600kg of gold bars held by Germany's largest commercial bank, Deutsche Bank, during the second world war probably came from melted-down teeth fillings of Holocaust victims, according to an independent German researcher.

Hersch Fischler said it was doubtful Deutsche Bank's management knew where the gold came from because the pre-war Reichsbank central bank, from which Deutsche Bank acquired the gold, kept the origins of these ingots top secret.

Mr Fischer made his comments after a British historian commissioned by Deutsche Bank to investigate its pre-war gold business confirmed the 600kg was "Melmer gold" – named after Bruno Melmer, the SS officer in charge of valuables stolen from Nazi victims killed between 1942 and 1944.

Mr Fischler said the Melmer gold was refined and melted by Degussa, one of the world's largest metals concerns, and other companies, and probably consisted mainly of teeth fillings from Jews at the Auschwitz and Lublin concentration camps in Nazi-occupied Poland.

Deutsche Bank and Degussa would not comment on these findings until independent investigations into each company had been completed by historians. **Reuters, Bonn**

HUNGARIAN ELECTION

Socialists facing challenge

Forecasters were at a loss to predict the final outcome of Hungary's parliamentary elections after Sunday's first round left the governing Socialist party in the lead with 32 per cent of the total vote but facing a powerful challenge from the right.

The Budapest bourse lost 2.4 per cent during the day on the political uncertainty caused by the results, and the emergence of the far-right Hungarian Justice and Life party (MIEP) as a parliamentary force.

The centre right Fidesz-Hungarian Civic party gained 28 per cent of the vote, a sharp rise on the 7 per cent of 1994, followed by the Smallholders, with almost 14 per cent, compared with 9 per cent four years ago.

The outgoing junior coalition party, the liberal Free Democrats, saw its share of the popular vote slump from 19 per cent in 1994 to just under 8 per cent, a figure which leaves combined coalition parties weaker in many constituencies than the combined right.

However, thanks to the vagaries of Hungary's two-round electoral structure, the final outcome is considered impossible to predict. The second round is due to take place on Sunday May 24. **Kester Eddy, Budapest**

GERMAN PRICES

VAT rise boosts inflation

Germany's annual inflation rate rose to 1.4 per cent in April after a one percentage point increase in value added tax to 16 per cent, according to revised figures yesterday.

But the federal statistics office said the full effect of the tax rise had not been passed on to consumers and noted only moderate increases between March and April in the cost of goods such as clothing, furniture and other household goods. Increased train fares added to the upward pressure, however.

Since the beginning of the year, German inflation has been subdued, falling to annual rates of 1.1 per cent in February and March.

Provisional figures, based on four western German states, had shown an annual inflation rate of 1.3 per cent in April. Between March and April, the cost of living index rose by 0.3 per cent. **Ralph Atkins, Bonn**

Copper-bottomed pledge on sell-offs key to Zambia aid

Without mines privatisation, the promising developments in the country's economy will be reversed. Tony Hawkins reports

Without a last minute deal to privatise its two main copper mines – Nchanga and Nkana – Zambia will be lucky indeed to secure the $165m in fresh aid pledges it hopes to get at today's donor Consultative Group meeting in Paris.

While copper privatisation may not be a formal condition for support from some donors, there is a keen awareness that without it, promising developments in the Zambian economy will be reversed with dire consequences for the country's 10m people, with a GDP per head of a meagre $140 a year.

Eight months ago, Lusaka was – if not in the donors' good books – at least regarded as one of sub-Saharan Africa's serious economic reformers.

Its privatisation programme was described as one of the best on the continent; inflation had been brought down from 187 per cent in 1993 to an average 24.8 per cent last year. Manufacturing industry had begun to reverse a 15 year decline, non-traditional exports were expanding at 33 per cent a year, more than 200 state enterprises had been privatised, foreign direct investment was running at well over $100m annually and the exchange rate had stabilised.

It all started to go wrong in November when, following an abortive coup attempt, President Frederic Chiluba imposed a state or emergency and arrested prominent political opponents, including Kenneth Kaunda, former president.

Despite this setback, copper mine privatisation appeared to remain on track with Anglo American and its partner, Falconbridge, planning to invest up to $800m in the development of the Konkola Deep project and the Kafue Consortium on the brink of finalising a deal to buy Nchanga and Nkana mines – the jewels in the copperbelt crown.

The donors, long critical of the government's indifferent human rights and governance records, set three preconditions for today's meeting – the lifting of the state of emergency, the release or charging of those detained in connection with the coup attempt and an investigation into allegations of torture.

With the donors seemingly satisfied, albeit grudgingly, that these conditions have been mostly met, the way was open for Zambia to press both for more aid and for its inclusion in the Heavily Indebted Poor Countries debt initiative (HIPC).

But this year's collapse of the copper price – from an average of more than $2,600 a tonne in 1997 to $1,700 a tonne - has transformed the business outlook.

First Falconbridge dropped out of the Konkola scheme and then early last month, talks between the government and the Kafue Consortium, comprising South Africa's Avmin, Noranda of Canada, Phelps Dodge of the US, each with 30 per cent, and Britain's Commonwealth Development Corporation (10 per cent), collapsed.

Lower copper prices and gloomy predictions of future trends forced Kafue to rework its numbers, while the assets they were bidding to buy were fast deteriorating as asset stripping gathered momentum.

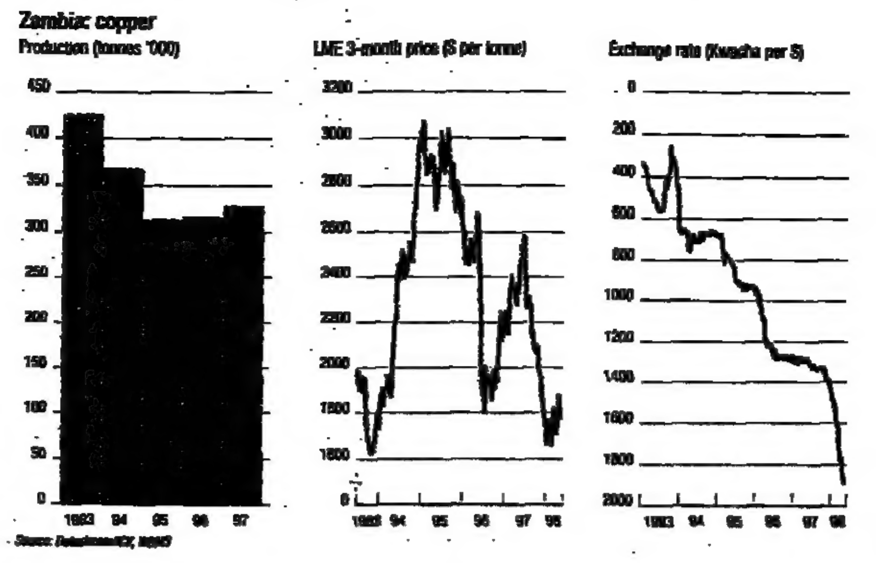
The rump of the state-owned Zambia Consolidated Copper Mines, after the sale of most of the smaller mines, is said to be losing about $2m daily. Current forecasts put copper production this year at a new low of about 250,000 tonnes – a far cry from the peak of more than 700,000 tonnes in the 1970s, while gross metal earnings from cobalt and copper are running at little more than half last year's levels.

With copper and cobalt accounting for three-quarters of Zambia's exports last year, the knock-on effects of the industry's decline – its share of GDP is down to 10 per cent from almost 17 per cent in the early 1990s – are severe. Businesses on the copperbelt are reportedly owed upwards of $40m by ZCCM and if a privatisation package is not announced soon, there could be a domino effect across manufacturing industry.

Already, one survey suggests manufacturing output is falling sharply and that, as a consequence, the government's tax revenue and foreign exchange targets are most unlikely to be met.

After GDP growth of 6.5 per cent in 1996, economic growth slowed to 3.5 per cent last year and analysts expect little if any expansion in 1998.

The kwacha, which depreciated by 7 per cent during 1997 has come under heavy pressure in recent weeks, falling by more than 25 per cent so far this year. This will rekindle inflation so that there is no chance of the government hitting its ambitious 9 per cent target in 1997, while few expect the kwacha to stabilise below K2,000 to the dollar.



The talks with Kafue ran aground over valuation and last week Mr Chiluba repeated his claim that the Kafue consortium wanted to buy the mines at "give-away" prices.

"We shall not do this," he said, adding that foreign consultants had put a value of $500m on the mines while Kafue was only offering $131m in cash, along with $70m in the takeover of debt and long term investment of at least $500m.

The Zambians are talking to other potential buyers, but it is doubtful whether the groups concerned – from China and India – would have the expertise and knowhow to make a go of turning the mines around.

Lusaka is relying on the donors to fund 35 per cent of total budget spending in 1998 – essentially capital investment, debt servicing and civil service restructuring. Without foreign aid, targets agreed with the IMF for the second phase of the three-year Enhanced Structural Adjustment Facility are unlikely to be met.

At the same time, as the economy continues to slow, domestic revenue and expenditure targets will also be missed. Above all, the downturn in the economy is not going to be reversed without the sale of the two copper mines on a basis that would open the door to the revival of the many businesses that are ultimately dependent on the mining industry.

Unlikely though it seems, conceivably Lusaka's brinkmanship in holding out for a better deal than that on the table might pay off.

But it's a high risk strategy since, if it fails the consequences – social and political, as well as economic – could be devastating.

Albright stays home to meet Netanyahu

By Stephen Fidler in Washington

Madeleine Albright, US secretary of state, yesterday decided to delay a planned visit to Europe this week in order to meet Benjamin Netanyahu, Israeli prime minister, on Wednesday in an attempt to breathe life into the flagging Middle East peace process.

The decision to meet Mr Netanyahu followed a meeting yesterday of Mrs Albright, the national security advisor, Sandy Berger, and other senior Middle East experts, and President Clinton at the White House.

According to the State Department spokesman, James Rubin, the talks would be aimed at refining US proposals on a withdrawal from parts of the West Bank by Israel but would not "water down" those proposals. The US Middle East envoy, Dennis Ross, just back from Israel, and assistant secretary Martin Indyk also attended the White House meeting.

Mrs Albright was to have accompanied Mr Clinton today on a visit to Germany and then on to a summit meeting in Britain, which she may still attend.

At the weekend, Mr Ross failed to persuade Mr Netanyahu to accept a US call to withdraw from a further 13 per cent of the West Bank, a move which would have opened the way for so-called final status talks on the future of the West Bank with Palestinian leader Yassir Arafat.

Mr Netanyahu was in any case planning a mid-week visit to Washington where it appeared likely he would press his case over the heads of the US administration to Congressional and US public opinion. Mr Clinton was strongly criticised on Capitol Hill last week for putting pressure on the Israelis. However, public support among Jewish opinion in the US appears high for Mr Clinton's efforts.

Mr Netanyahu has said a 13 per cent pull-back would detract from Israeli security. He is also said to be reluctant to persuade his right wing cabinet to back such a withdrawal – already agreed with the Palestinians in February. That withdrawal would give the Palestinian Authority full or partial control of 40 per cent of the West Bank, although a majority of this would remain under the control of the Israeli security forces.

The US has said, however, that the further 13 per cent withdrawal is the minimum the Palestinians would accept.

Speaking in April, Mr Indyk said: "We can only lower [the Palestinians] so far if we want to help Israel achieve an agreement with the Palestinians."

Once the pull-back is agreed, then the idea is to launch talks on a final peace settlement which Mr Netanyahu has said he wants to undertake straightaway. According to Peter Rodman of the Nixon Centre for Peace and Freedom in Washington, the Oslo accords – under which the pull-back is being discussed – was essentially to allow a Labour government achieve a peace accord with the Palestinians, and such a process of gradual pull-backs would be hugely difficult for Mr Netanyahu and his Likud Party.

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IMF warns on Egypt growth

By Mark Huband in Cairo

Huge improvements in efficiency are vital if Egypt's economic growth is to achieve the 7 per cent minimum level essential to sustaining the growing population, a study by the International Monetary Fund has shown.

Despite 5 per cent current annual economic growth, the Egyptian economy is unlikely to reach this level within three years unless production methods can be streamlined and technology use widened.

Failure to improve efficiency will increase GDP growth by a mere 0.1 per cent annually over the next five years, the report calculates.

The report, Beyond Stabilisation, Towards a Dynamic Market Economy, is the first of its kind the IMF has published on Egypt. It applauds the strides Egypt has taken to liberalise its economy but warns many obstacles must be removed if half a decade of improving macroeconomic conditions are to be fully exploited.

Central to government policy and a big concern for the IMF is the necessity to generate much higher levels of foreign investment and domestic savings.

Only with an 8 per cent increase in investment and improvements in efficiency of the bureaucracy, industry and export facilities will GDP growth reach even 6.9 per cent by 2003.

Iran plea to oil-rich neighbours

Iran, fighting US attempts to isolate it, wooed the former Soviet republics of the oil-rich Caspian region yesterday by appealing to their Islamic roots, Reuters reports from Almaty.

Iran's president Mohammad Khatami urged his neighbours to resist pressure from the US in dividing the spoils of the Caspian.

"Our political and economic decisions should conform to the same common cultural identity," Mr Khatami said.

Iran has found itself at the losing end of the race to exploit the riches of the Caspian, which only opened up with the collapse of communism.

Six of the 15 republics which emerged from the Soviet Union in 1991 joined Iran, Pakistan, Turkey and Afghanistan in an Economic Co-operation Organisation (ECO) a year later to reorient their economies towards fellow Moslem states.

At their fifth summit in the Kazakh commercial capital Almaty yesterday the ECO members pledged to foster integration in their 300m-strong region.

But the newly independent states depend on western investment for the development of their natural resources and those investors face sanctions if they do business with Iran, which Washington accuses of sponsoring international terrorism.

Downgrading of banks hits Seoul shares

By John Burton in Seoul

Share prices on the Seoul stock market fell by 3.5 per cent yesterday to a 1998 low of 361.58 points as Moody's Investor Service, the US credit agency, downgraded the ratings of 19 South Korean banks and provoked fears of a renewed financial crisis.

Moody's cut the long-term debt ratings of Korea's main state investment banks, Korea Development Bank (KDB), Export-Import Bank of Korea and Industrial Bank of Korea from Ba1 to Ba2 for the first two and Ba3 for the latter.

Moody's said the financial condition of the state banks was deteriorating because of their heavy lending exposure to troubled conglomerates and uncertainty about government support for their debt obligations.

The lowering of KDB's rating caused particular concern among domestic investors because it was seen as tantamount to the nation's sovereign rating.

It raised speculation that Korea will possibly suffer a further downgrading in its sovereign rating, which was cut to below investment grade by Moody's last winter when the nation plunged into a foreign debt crisis.

Moody's also lowered the senior and subordinated debt and financial strength ratings of 16 commercial banks because it believed they have only a slight chance in achieving recapitalisation.

The government is reviewing restructuring plans submitted last week by 12 banks whose capital adequacy ratios are below the 8 per cent limit set by the Bank for International Settlements. Another two banks, Korea First and Seoul, have already been nationalised and are scheduled to be sold by November.

Most of the banks had proposed recapitalisation through share rights and bond issues. But government officials described the plans as unrealistic because their poor financial status is unlikely to attract investors when the Seoul stock market is depressed and bank shares have fallen to record lows.

The finance ministry, which is scheduled to make a decision on the future of the banking sector by June 30, has suggested it might intervene by closing insolvent financial institutions through forced mergers.

Meanwhile, Korea's seven fund-management companies – or investment trusts – which have suffered from a sharp fall in share prices, admitted they would be unable to halve their total debts of Won9,900bn ($7.13bn) by a government-imposed deadline of the end of June, which could result in possible closure.

The seven said they would try to reduce their debts to Won5,100bn by next March through sale of Won6,500bn in equities and bond holdings and Won320bn in new rights issues.

But analysts said the plan was impractical because of depressed market conditions, while total debts of the fund-management companies were believed to be higher than officially stated.

The three big fund-managements companies Daehan, Korea and Citizens, which control two-thirds of investment-trust business, have been in poor financial condition since the government forced them in 1989 to borrow state funds and use them to prop up a sagging stock market. But the plan backfired when the bourse subsequently fell.

Fischer sees progress on Indonesia debt deal

By Peter Montagnon, Asia Editor, in London

Indonesia's agreement with its international bank creditors to refinance short-term interbank debts and stabilise flows of trade credit marks a "significant achievement" which should help underpin the rupiah, according to Stanley Fischer, deputy managing director of the International Monetary Fund.

The banks agreed in Tokyo at the weekend to roll over nearly $8bn in interbank credit for 30 days and then refinance it along the lines of the agreement reached in January between South Korea and its bank creditors.

Mr Fischer said he was now looking for progress on the complex question of the short-term corporate credit which makes up the bulk of Indonesia's private sector debt. This regularises the debt, Mr Fischer said in an interview.

The interbank agreement removes the threat that Indonesia could be under pressure to repay $8.9bn as soon as there was any sign of improvement in its financial situation, thus placing a burden on the balance of payments.

A similar argument applies to the Tokyo agreement to maintain some $7bn to $8bn in existing lines of trade credit and restore them to previous levels, he added. Indonesia has been hampered by a shortage of trade credit which has prevented it buying essential goods abroad as well as components needed for its own exports.

Mr Fischer added he thought initial reaction to the Tokyo meeting had been too gloomy. He had never expected it to reach final agreement on how to handle Indonesia's $80bn private sector foreign debt, but the outlook was promising for the next meeting in Frankfurt on May 26 between Indonesia and the steering committee led by Deutsche Bank, Bank of Tokyo-Mitsubishi and Chase Manhattan.

Details of the deal on interbank debt, including interest margins, have to be worked out over the next 30 days. After a similar freeze in Korea, banks agreed to refinance the debt over a range of medium-term maturities.

Corporate debt is to be rescheduled along the lines used by Mexico in the 1980s whereby private companies made debt service payments in local currency to a special vehicle which was then responsible for converting them to foreign exchange.

The main dispute is over the exchange rate guarantee, with Indonesia resisting a high rate which could prove expensive to its central bank.

Suharto warning

Asia's economic crisis has taken a heavy toll on the social and political situation in the region, President Suharto of Indonesia told leaders of a Group of 15 developing countries meeting in Cairo yesterday, write Mark Huband and Sander Thoenes.

In a rare speech, he said the crisis had brought about massive unemployment which could trigger social problems, including the spread of poverty, a rise in crime and threats to political stability." He said the troubles had "persisted with no indication that it would soon abate..."

Separately, Indonesia's most prominent opposition leader publicly sided with student protesters yesterday and called on President Suharto to step down.

Amien Rais, chairman of a moderate Moslem organisation which claims 28m members and a popular government critic, also challenged Indonesia's powerful military to take sides between the president or the people.

India N-test seen as setback for Asia and worldwide curbs

Sanctions would be difficult to impose on a country that has not broken any promises, write **David Buchan and Stephen Fidler**

India's triple nuclear weapon test yesterday sent political shockwaves around the world and is being viewed as an undoubted setback for Asian stability and for nuclear non-proliferation in general.

But even the US, which has always been the most active in trying to stop nuclear weapons spreading, may find it hard to justify imposing sanctions on New Delhi.

For India has never signed the 1970 Nuclear Non-Proliferation Treaty (NNPT) and refused to endorse the 1996 Comprehensive Test Ban (CTB). "India cannot be accused of breaking promises because it has not made any promises," the International Atomic Energy Agency, the Vienna-based safeguards agency, commented yesterday.

The White House expressed "deep disappointment" at the Indian decision, but declined to comment on the issue of sanctions. The size of India, its candid defiance of non-proliferation efforts and the home-grown nature of its weapons programme may deter the US from imposing sanctions.

By contrast, Washington has tried to thwart Pakistan secretly acquiring nuclear weapons technology from third countries, chiefly China, in the belief, probably vain, that it had less chance of making a bomb on its own.

Anthony Cordesman of the Washington-based Center for Strategic and International Studies, said: "Sanctions would look hollow, given India already has its missiles and its nuclear programme."

It reverses what had seemed to be a hopeful trend around the world and treaty renegotiations are now certain

India has long denounced the NNPT regime as favouring the nuclear "haves" who can keep their weapons without being forced to disarm against the "have-nots" who are forced to submit to IAEA inspections.

India might continue testing. But as Colonel Terence Taylor of the International Institute for Strategic Studies speculates, it might also try to join the nuclear establishment, having now clearly shown it is a nuclear "have". France, for instance, carried out a last test series in 1995-96 before signing the CTB.

Colonel Taylor also believes yesterday's test should perhaps also be read for "its political message", in the context of the debate about enlarging the UN Security Council, with India vying for a seat on that body. The present permanent five members of the Security Council all happen to have nuclear weapons.

For the moment, however, the Indian explosion is a clear setback to non-proliferation efforts and even the CTB. For this treaty to come into force, some 40 named states – including India and Pakistan – have to ratify it. This was the price for getting certain states, such as Israel, to agree to a complete test ban.

Before India's tests, it was clear that this provision of the treaty might have to be modified. Unless there is a change of heart in New Delhi, such renegotiation is now certain.

The Indian move reverses what had seemed to be a hopeful trend around the world. In recent years, South Africa has scrapped the six bombs it made during the apartheid era and agreed to IAEA inspection. Among the successor states of the Soviet Union, Ukraine and Kazakhstan have handed their nuclear weapons material over to Russia in return for aid with civil nuclear power: Brazil and Argentina have agreed to let a local third-party agency inspect each other's nuclear facilities.

Even North Korea, which happens to be a NNPT signatory, has agreed in principle to freeze development of its nuclear installations in return for US help with nuclear power. This arrangement has been fraught with difficulty and arguments, but at least the IAEA is allowed to stand sentry outside North Korean plants, though not to inspect inside.

NEWS DIGEST

ECONOMY LOSING MOMENTUM

Chinese retail prices fall while tax take slows

China's retail price index (RPI) fell 2.1 per cent last month by comparison with a year earlier, evidence of how deflationary pressures are gathering pace as weak domestic demand and structural oversupply have conspired to depress prices.

The figures yesterday showing the further slide in prices coincided with a report demonstrating how the growth of China's tax revenues has suffered in the first quarter as the national economy has started losing momentum.

Industrial and commercial tax revenues reached RMB172.4bn ($20.8bn) in the first three months of 1998, up 10 per cent on the same period last year. However, the rate of growth was 7.5 percentage points below the 1997 rate and 18.4 percentage points below the 1996 rate, according to a report yesterday in the People's Daily.

The official government-owned newspaper said: "Tax collected from some key industries and enterprises showed relatively rapid declines, restraining overall growth." According to the report, the actual growth in tax revenues would have been just 5.7 per cent had it not been for the increase in stamp duty on share transactions and the rise in business tax on financial institutions.

Prices in China began falling for the first time last October. Last October, the RPI fell by 0.4 per cent year-on-year. In March it was down 1.2 per cent and the April figure of a 2.1 per cent fall released yesterday reinforces the anecdotal evidence of how widespread price cuts to win back reluctant consumers have contributed to the deflationary momentum.

Xinhua, the government news agency, said yesterday that the RPI for the first four months of the year fell 1.7 per cent compared with the same period in 1997. For the first quarter of 1998, the State Statistical Bureau reported a 1.5 per cent decline in prices.

The broader-based consumer price index (CPI) edged up 0.1 per cent in the first four months compared with the same period last year, the report said. In April alone, CPI fell 0.3 per cent year-on-year. **James Harding, Shanghai**

OVERSEAS INVESTMENT

Fears of Japan capital flight

Japanese investors bought a net Y2,800bn ($21bn) worth of foreign bonds and equities in April, government figures yesterday showed. In contrast, in March Japanese investors made net sales of Y951bn of non-yen securities.

Japan's pattern of overseas investment is being closely watched by the government because of rising fears that any large capital flight could further weaken the yen. The data for April are important because it is the first month after the government lifted foreign exchange controls as part of its so-called "Big Bang" financial deregulation on April 1.

In practice the impact of the changes has been undermined by a series of other measures that the government has subsequently introduced, such as heavy tax reporting requirements for cross-border capital transactions. Government officials said the April data might have been partly affected by seasonal factors. Economists believe that several more months of information will be needed before it becomes clear whether a capital flight is indeed under way. **Gillian Tett, Tokyo**

JAPANESE INDUSTRY

Machine tool orders fall 1.5%

Japanese machine tool makers received orders worth Y98.15bn ($737m) in March, down 1.5 per cent from a year ago, the Japan Machine Tool Builders' Association said yesterday. It was the first year-on-year fall since May 1994.

Total orders in the 1997-98 business year ended March 31 rose 15.2 per cent from the previous year, the fourth consecutive annual increase, it said, adding that the 1997-98 figure was the third-highest ever.

Machine tool orders are the main component of the Economic Planning Agency's machinery orders data, one of the key factors used by the government in assessing the state of the economy. Toyo Kato, the head of the association, said that orders for 1998-99 business year were likely to decline from 1997-98 levels. Mr Kato said: "Our (Japanese) customers among small and medium-sized firms are inclined to delay capital investment despite their need to renew equipment, due to uncertainties in the economic outlook."
Reuters, Tokyo

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

	UNITED STATES Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator	JAPAN Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator	GERMANY Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	113.0	110.7	5.4	104.9	100.6	122.6	113.1	2.5	135.2	98.3	109.1	106.3	6.2	165.1	92.5
1989	115.5	112.7	5.2	97.9	100.1	132.6	119.7	2.2	146.3	102.4	111.9	111.4	5.6	219.5	96.7
1990	116.2	112.4	5.5	82.7	93.8	141.8	124.5	2.1	149.8	99.9	119.7	117.2	4.8	261.9	98.5
1991	113.3	110.2	6.8	61.7	96.1	144.5	126.8	2.1	144.2	95.3	125.0	121.7	4.2	297.9	96.0
1992	117.0	113.6	7.4	61.8	103.2	139.7	119.0	2.1	124.2	91.0	122.8	120.0	7.7	287.9	89.3
1993	122.2	117.7	6.8	67.7	106.6	131.7	113.6	2.5	105.8	92.7	119.7	112.6	7.9	229.0	94.6
1994	129.2	124.0	6.0	79.0	112.7	129.4	114.5	2.9	99.4	97.8	117.8	117.8	8.4	241.2	103.7
1995	132.6	130.2	5.5	79.3	115.8	126.4	118.5	3.1	103.2	100.1	118.5	119.4	8.2	268.3	99.7
1996	137.5	134.7	5.4	77.0	120.8	132.6	121.7	3.3	115.3	101.3	117.2	119.0	8.8	274.1	103.8
1997	143.0	141.4	4.9	79.0	127.5	132.0	126.8	3.4	120.8	98.9	116.7	112.5	9.7	282.8	111.8
1st qtr.1997	4.4	5.0	5.2	79.3	123.2	9.0	6.4	3.3	121.7	102.0	−0.5	4.0	9.4	273.1	107.4
2nd qtr.1997	2.9	4.3	4.9	77.3	125.2	−6.7	6.7	3.5	121.0	101.3	0.5	2.0	9.6	275.8	109.7
3rd qtr.1997	4.6	4.9	4.8	78.9	127.8	−1.5	4.2	3.4	121.0	100.3	−3.1	2.6	9.9	285.6	112.4
4th qtr.1997	4.0	5.7	4.6	80.0	127.6	−2.9	−0.3	3.4	118.7	98.7	−2.2	3.6	10.0	297.2	111.8
April 1997	3.1	4.7	4.9	78.9	122.5	−12.6	4.8	3.3	121.0	101.6	−0.2	2.8	9.5	270.8	108.1
May	2.2	4.3	4.8	73.3	123.7	−3.6	7.5	3.6	121.3	101.6	2.7	0.4	9.6	275.8	109.0
June	3.5	3.9	5.0	79.7	125.2	−3.8	7.8	3.5	120.6	101.3	−0.9	2.7	9.7	280.8	109.7
July	4.7	4.7	4.8	78.7	126.2	−2.2	5.0	3.4	120.5	101.7	−3.4	6.2	9.7	280.8	111.4
August	5.1	5.0	4.9	77.7	127.4	−0.3	3.3	3.4	120.4	100.6	−2.6	0.9	9.9	288.3	111.9
September	4.1	5.0	4.9	80.4	127.8	−2.0	4.3	3.4	122.1	100.3	−3.2	0.6	10.0	287.5	112.4
October	3.4	5.8	4.7	78.5	128.8	−2.3	5.1	3.4	118.7	99.9	1.0	4.1	10.0	290.8	112.2
November	4.2	5.8	4.6	82.6	128.0	−2.1	−2.0	3.5	116.7	99.2	−2.2	3.5	10.0	300.0	111.8
December	4.4	5.7	4.7	78.9	127.6	−4.4	−1.0	3.4	119.5	98.7	−5.2	3.0	10.0	300.8	111.3
January 1998	4.2	5.3	4.6	78.8	127.4	−1.8	−3.2	3.5	112.0	98.8	−0.3	7.3	9.8	301.6	
February	4.0	4.4	4.6	82.2	128.3	−5.2	−3.6		107.4	98.2	−0.4	5.2			
March		4.3					−6.2					3.5			

	FRANCE Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator	ITALY Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator	UNITED KINGDOM Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1988	107.9	107.2	10.0	135.3	101.0	107.9	114.3	10.0	100.3	117.8	111.7	8.6	144.0	96.4
1989	109.5	111.1	9.4	160.6	100.8	116.9	118.7	10.0	98.3	120.1	114.0	7.2	124.3	95.4
1990	110.4	112.8	8.9	163.2	94.7	114.4	118.0	9.1	94.0	121.1	113.7	6.9	97.7	92.4
1991	110.2	111.5	9.4	128.2	95.1	116.8	116.9	8.8	97.5	119.4	109.9	8.8	66.6	97.6
1992	110.5	110.1	10.4	109.5	95.4	116.9	115.4	9.0	91.5	120.4	110.2	10.1	69.6	101.2
1993	110.7	105.9	11.7	90.0	97.3	113.5	113.0	10.3	99.4	123.9	112.6	10.4	76.5	106.9
1994	110.5	110.0	12.3	104.1	103.8	108.5	119.9	11.4	105.2	128.5	118.7	9.5	93.7	110.7
1995	110.8	112.4	11.6		98.3	101.3	127.3	11.9	104.2	129.9	121.2	8.7	107.4	110.3
1996	110.2	112.6	12.3		102.5	99.2	123.7	12.0	106.9	133.7	122.8	8.2	131.1	113.9
1997	111.3	116.8	12.5		106.9		127.1		117.1	140.7	124.3	7.1	162.0	115.7
1st qtr.1997	−1.4	0.7	12.5		103.5	3.3	−0.3	12.2	108.5	4.7	1.4	7.5	156.0	114.0
2nd qtr.1997	0.8	3.4	12.5		104.4	4.3	2.3	12.1	110.3	5.4	1.6	7.2	158.6	113.8
3rd qtr.1997	1.7	4.6	12.5		106.8	6.6	3.4	12.1	113.9	5.2	1.9	7.0	166.5	114.7
4th qtr.1997	3.0	6.4	12.4		106.9		5.6		116.8	5.6	0.8	6.6	166.9	115.6
April 1997	0.9	4.4	12.5		103.3	5.3	3.9	n.a.	108.7	4.9	2.4	7.2	157.0	114.0
May	2.8	2.4	12.5		103.6	7.5	2.8	n.a.	109.3	5.6	−0.1	7.1	158.9	113.7
June	−1.3	3.5	12.6		104.4	0.3	0.4	n.a.	110.3	5.8	2.4	7.3	161.8	113.8
July	2.6	4.7	12.5		105.5	8.8	3.3	n.a.	111.4	6.4	2.2	7.1	162.3	113.9
August	−0.9	4.7	12.5		106.3	8.6	4.6	n.a.	112.8	5.4	2.2	7.0	166.3	114.2
September	3.5	4.3	12.5		106.8	8.2	2.4	n.a.	113.9	3.9	1.4	6.8	170.9	114.7
October	4.4	6.7	12.5		107.0	8.0	4.5	n.a.	114.6	6.5	1.4	6.6	176.9	115.4
November	−0.5	5.0	12.4		107.0		4.5	n.a.	115.6	4.9	0.5	6.5	164.3	115.8
December	5.3	7.4	12.2		106.9		7.8	n.a.	116.8	5.3	0.1	6.6	159.5	115.6
January 1998	5.7	7.0	12.1		107.2		6.5	n.a.	118.3	6.8	0.0	6.7	152.7	115.4
February	2.1	6.9	12.1		107.7		2.2	n.a.	118.6	4.6	0.0		156.8	115.2
March								n.a.		4.2	1.0			

All series seasonally adjusted. Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA. Retail sales volume: data from national government sources except Japan and Italy (value series deflated by OECD using CPI). Refers to total retail sales except France and Italy (major outlets only) and Japan (department stores only). Industrial production: data from national government sources. Includes mining, manufacturing, gas, electricity and water supply industries except Japan (mining and manufacturing only) and UK (also includes construction industries). Unemployment rate: OECD standardised rate which adjusts as far as possible for the different definitions of unemployment used in official sources. Vacancy rate indicator: relevant vacancy measure divided by total civilian employment, expressed in index form. Derived from OECD series. US – help-wanted advertising, Japan – new vacancies, Germany and France – all jobs vacant, Italy – no data available, UK – unfilled vacancies. Composite leading indicator: OECD data. Each is a combination of series, cyclical fluctuations in which usually precede cyclical fluctuations in general economic activity.

EU hits back on air alliances

By Michael Skapinker in London and Samer Iskandar in Brussels

The war of words between Brussels and Washington over the regulation of transatlantic aviation alliances worsened yesterday when the Commission hit back at US allegations that it risked pushing up fares.

In an acrimonious letter to Charles Hunnicutt, the US assistant secretary for aviation, Karel Van Miert, the European Union competition commissioner, said Washington appeared to have misunderstood Brussels' plans to limit the number of flights airline alliances operate on particular routes.

Mr Van Miert is considering the proposals as part of his plans for regulating alliances between British Airways and American Airlines and between Lufthansa of Germany and United Airlines of the US.

He is also planning to instruct them to give up take-off and landing slots at their respective home bases at Frankfurt and Heathrow airports.

Mr Hunnicutt wrote to Mr Van Miert last month saying the proposals on flight restrictions risked reducing competition and increasing fares, particularly for business travellers. In his reply, Mr Van Miert said that he had believed he was the only recipient of Mr Hunnicutt's letter. "However, its wide distribution to the public suggests it was intended to serve a different purpose. I therefore wondered whether I should reply at all."

Mr Van Miert says that his proposals for alliances to reduce flights will only apply if "another credible competitor wants to enter the market on the routes concerned".

He adds: "If no competitor takes on the alliance on the given routes, no frequency reduction will have to take place.

"In any event, at the end of the season in question, any carrier, including the alliance, will be free to compete without regulatory constraints and the alliance can again increase its capacity if it wants to do so."

VW order will boost S Africa

By Victor Mallet in Johannesburg

South African vehicle exports will increase fourfold next year since Volkswagen of South Africa has been asked by its German parent company to supply R5bn ($1bn) worth of fourth-generation VW Golf cars to the UK market.

Built-up vehicle exports by all South African manufacturers in 1997 were worth only R1.1bn.

VW of South Africa said the VW group had no spare capacity to produce the cars at other plants and had turned to the South African subsidiary to produce the 68,000 Golfs. VWSA plans nearly to double its output to meet the order.

It has earmarked an extra R150m of capital spending and will hire 1,000 new workers at its plant in the Eastern Cape, giving a badly needed boost to South African industry and the country's employment figures.

Last year, VWSA produced 65,000 cars, of which only 6,000 were exported, mainly to Europe, Australia and other African countries.

This year, it will make the same number, including 8,000 for the new order and 4,000 for other export markets. In 1999, output will be 116,000 vehicles, including 60,000 Golfs for the UK.

Hans-Christian Maergner, managing director of VWSA, was pleased at the order but warned South Africa's traditionally militant trade unions they would have to abandon labour unrest.

He urged them to accept modern, more flexible working practices so the country could flourish as an international supplier of vehicles.

The South African car market has long been heavily protected, but tariffs have now started to fall and makers with small production runs are being encouraged to rationalise their operations. Vehicle component exports have been rising fast.

"Reliability of supply has to be guaranteed," Mr Maergner said. "We cannot tolerate unprocedural labour disruptions. The world is not waiting for South Africa to catch up but is improving in leaps and bounds.

"We will need to make quantum leaps to catch up and stay competitive."

Congress urges tougher food checks

By Nancy Dunne in Washington

Increasing food imports into the US has exposed Americans to more than 81m cases of foodborne illness each year, according to a report by the investigative arm of Congress.

The General Accounting Office (GAO) said measures being taken by the Food and Drug Administration were inadequate for the task of monitoring the flood of imports. Currently it inspects less than 2 per cent of shipments, employing techniques which are inadequate for determining some dangerous organisms, the GAO said.

The US Agriculture Department is responsible for inspecting meat, poultry and some egg imports. It allows imports only from those countries which have food safety systems equivalent to that of the US. It also sends inspectors abroad to check on foreign systems. The Food and Drugs Administration (FDA), however, has no such authority. However, the agency has already acknowledged problems and has requested Congressional authorisation for a similar equivalency system. The GAO recommended that Congress act on the request.

President Clinton has also asked for an additional $101m to hire more food inspectors and to provide technical assistance to US trade partners whose products fail US tests. These proposals have yet to be passed by Congress. However, hearings this week held by Senator Susan Collins, a Maine Republican, who requested the GAO report, could bring Congressional action.

The GAO found up to 81m cases of illness and 9,100 deaths caused by food in 1996. "The increased consumption of imported foods in the US further heightens the risk of illness," it said. The report said the FDA is having difficulty keeping pace with the rising level of imports. Its coverage of shipments has fallen from an estimated 8 per cent in fiscal 1992 to an estimated 1.7 per cent in fiscal 1997. Furthermore, individual products tested at ports of entry may not represent the health risks of an entire shipment.

The GAO recommended that once Congress gave the FDA equivalency authority, the new system be phased in over time.

Nicaragua tracks down new dream for isthmus link

Rail schemes are being proposed in rivalry to the Panama canal but some economists doubt there will be enough business to justify the cost, writes **James Wilson**

That Panama has a canal and Nicaragua does not is often put down to a devious Frenchman, a one cent stamp and one of history's most famous pieces of political lobbying.

In 1902, the US Senate was days away from a vote on where in Central America to build a ship canal. With Nicaragua the firm favourite, and with Philippe Bunau-Varilla desperate for the US to take over the failed French effort at Panama – in which he had a substantial interest – the French engineer sent every senator the Nicaraguan stamp that showed smoke billowing from the Momotombo volcano.

"An official witness of the volcanic activity on the isthmus of Nicaragua," wrote Bunau-Varilla, playing up fears of a waterway disappearing under lava. Three days later the Senate decided by eight votes to build the canal in Panama. Lake Nicaragua, through which ocean liners might have steamed, is today plied by nothing more than ferries and fishing boats.

But Nicaragua still entertains its canal dreams. A century on, the talk is of a "dry canal" – not a waterway at all, but a railroad to carry container freight from ocean to ocean and make Nicaragua a modern shipping hub.

"Nicaragua feels its historical destiny is to have its own canal," says Don Bosco, president of CINN, one of two groups putting forward rival projects. "But the economics today for building a water canal just do not add up. Our solution of a dry canal has the same purpose."

The $1.6bn plan from CINN, a multinational group, is for a 375km railway connecting two new ports at remote Monkey Point on the Caribbean and near Rivas on the Pacific. A rival group of Nicaraguan investors, SIT Global, plans a 456km rail route leading from Monkey Point to the existing Pacific port of Corinto which would cost $1.3bn. However, SIT Global's scheme will be considered only if CINN fails to meet a deadline to complete its present feasibility studies, says Pablo Hurtado, vice-minister for transport.

What makes the dry canal an attractive proposition, says Mr Bosco, is the growth of container trade in world shipping. "Ten or 15 years ago this would not have been possible. But with the enormous increase in containerisation it now makes sense. The market is there."

Shipping analysts concur that container trade is set for continued expansion. "Growth is going to stay at 7.5-8 per cent, year in, year out," says Ole Slorer, a transport analyst at NatWest Markets in London. "The question is the economics of what they are proposing."

And on this the industry has doubts. One director of a leading shipping line said: "We would be surprised if this goes through. There is interest, but can you make it as cheap as the Panama Canal? Compared with rail, that is definitely still cheaper."

Mr Bosco and CINN contend that their land bridge service is a viable option given the constraints of the Panama Canal – heading for capacity in about 15 years' time and able to serve ships only up to a certain size, known as Panamax.

Nicaragua's deep-water ports and land bridge would let the growing fleet of "post-Panamax" ships gain big economies of scale on long voyages. Containers would then be sent by rail between the ports and reloaded on to smaller vessels for onward destinations, in a hub and spoke operation. CINN says it would also compare favourably with the long rail routes across the US that have been bedevilled by hold-ups.

Such a view has merit, says one shipping consultant, but also competes directly with Nicaragua's old rival – Panama. There, US companies Kansas City Southern Railways and Mi-Jack, a terminal operator, have a concession to bring Panama's own moribund transcontinental railway back to life. Manzanillo, a container terminal at the Caribbean port of Colón in which a US port operator, Stevedoring Services of America, has a half share, moved nearly 600,000 twenty-foot equivalent units in 1997. Other modern ports at each end of the canal are being developed by such companies as Hong Kong's Hutchison Port Holdings and Evergreen of Taiwan.

Dario Benedetti, of the Panama railway, says: "It seems to me a $1.6bn investment might be a little bit difficult to justify, compared with here where we made a $60m investment. How much volume is there in this part of the world? We are not talking Hong Kong, Rotterdam or Los Angeles. I don't see that there is enough business for a couple of countries a couple of hundred miles apart. But shippers and investors will determine the outcome."

Political uncertainty hangs over Panama ahead of the US handover of the canal to Panamanian control, says Mr Bosco. In any case, he believes there is room for another route across the isthmus. "The market is big enough for all of us. Even if there is a railroad in Panama, it is still a drop in the bucket compared with what the market will be."

OECD EXPORT CREDIT RATES

The Organisation for Economic Co-operation and Development announced new minimum interest rates (%) for officially supported export credits for May 15 1998 to June 14 1998 (April 15 1998 to May 14 1998 in brackets).

D-Mark	5.74	(5.85)
Ecu	5.34	(5.27)
French franc	5.69	(5.63)
Guilder		
up to 5 years	5.55	(5.46)
5 to 8.5 years	5.60	(5.70)
more than 8.5 years	6.20	(6.10)
Italian lira	4.91	(4.90)
Yen	2.40*	(2.40)
Peseta	5.65	(5.60)
Sterling	7.01	(7.19)
Swiss franc	4.17	(3.99)
US dollar for credits		
up to 5 years	6.02	(5.93)
5 to 8.5 years	6.02	(6.01)
more than 8.5 years	6.09	(6.08)

These rates are published monthly by the Financial Times. A premium of 0.2 per cent is to be added to the credit rates when fixed at the time of tender. They may not be fixed for more than 120 days. SDR-based rates of interest are the same for all currencies. The Japanese Yen CIRR will change to 2.30 as of 15th May 1998.

COPPER MARKET MANIPULATION UK AND US REGULATORS SAY AGREEMENTS BRING INVESTIGATIONS TO AN END

Sumitomo to pay $133m in claims

By Nikki Tait in Chicago, Richard Wolffe in Washington and Kenneth Gooding in London

Sumitomo Corporation is to pay $133m to settle claims by regulators in the US and the UK arising from manipulation of the copper market by its senior trader, Yasua Hamanaka. The Japanese group has set aside a further $25m in the US to "provide restitution to persons injured by Sumitomo's unlawful conduct".

The regulators have been investigating Sumitomo and several other companies since 1996 when the Japanese trading giant revealed that Mr Hamanaka's unauthorised trading had built up copper losses of $2.6bn.

Sumitomo did not not admit or deny the regulators' allegations but the US Commodity Futures Trading Commission (CFTC) and the Financial Services Authority (FSA) in the UK said the accords brought their regulatory investigations of the Japanese group to an end.

They made it clear, however, that, with Sumitomo's help, they were continuing to pursue investigations of other companies involved in the copper scandal. The UK's Serious Fraud Office also said its criminal investigation was continuing.

The $150m total settlement in the US is said to be the largest civil penalty imposed by any US regulatory agency, although there have been larger settlements where criminal charges have been involved. The payment of $8m to the UK's FSA, formerly known as the Securities and Investments Board, is unprecedented.

Brooksley Born, chair of the CFTC, said the high level of the $125m fine Sumitomo had agreed to pay reflected the group's profits from manipulating the copper market in 1995 and 1996 when Mr Hamanaka and Sumitomo's agent or agents established and maintained large and dominant futures positions in copper on the London Metal Exchange to force up the price. This did "very serious harm" to the copper market.

But the penalty also took into account the fact Mr Hamanaka had concealed his activities from superiors by forging signatures and had profited personally.

Both the CFTC and the FSA said Sumitomo had given prompt, valuable and extensive co-operation to their inquiries following Mr Hamanaka's confession. The CFTC said that it might have been impossible to obtain some of the information, "particularly taking into account that Sumitomo is a foreign corporation". In March Mr Hamanaka was sentenced to eight years in prison after admitting fraud.

The copper investigations resulted in unprecedented co-operation between regulators in Japan, the UK and the US and resulted in new measures enabling them to share information and to address potential market manipulation of any kind or other "abusive practices".

The CFTC said $25m from Sumitomo would be placed into escrow for four years to provide restitution to private parties hurt by the copper market manipulation.

Ex-Miss Universe takes off her gloves to fight for presidency

Venezuela's Irene Sáez has exchanged her glamorous image for sober suits in her determination to eradicate poverty and overhaul the education system. **Raymond Colitt** reports

With the same pageantry that won her the Miss Universe crown in 1981, the 36-year-old Irene Sáez officially launched her campaign to become the next president of Venezuela at the weekend.

"I am here today to assume the responsibility of running for the presidency of the republic," she announced before a cheering crowd of supporters in Caracas after more than a year of speculation about her candidacy.

Her second big rally in a week marks the beginning of an aggressive campaign to regain her long-held lead in the polls, which she recently lost to her rival candidate, Hugo Chávez, the former military coup leader.

In the latest survey of voter intentions before her campaign launch, Datanalisis, the polling company, gave Mr Chávez 27.2 per cent compared with 22.2 per cent for Miss Sáez.

The rallies were targeted directly at discrediting Mr Chávez and winning back voters from his camp. During one rally, a cinema-size screen showed images of the 1989 bloody street riots and of Mr Chávez's failed coup attempt in 1992.

Against this backdrop, Miss Sáez vowed to achieve progress without shedding blood, playing on common fears of Mr Chávez's allegedly inherent authoritarianism and violence.

Eager to match Mr Chávez's populist rhetoric aimed at the majority of Venezuelans whose income is insufficient to meet basic needs, Miss Sáez pledged to eradicate poverty and overhaul the decaying education system.

'I want Venezuela to be orderly and modern – part of the first world'

She pledged to increase food subsidies for children and aid for senior citizens and single mothers. Announcing the end of paternalism and the "father state" and the beginning of the "mother state", she implied that a government led by a woman would be more compassionate.

It would be a smaller government, she promised. She would reduce the number of ministries from 24 to 10, promote economic decentralisation, honour the country's foreign debt obligations, and continue with the opening of the country's petrol sector to private capital – goals aimed at placating initial investor concerns while avoiding flak from rival candidates.

Irene Sáez campaigning at the weekend: she is expected to stress her achievements as mayor AP

In a country where beauty queens are revered like national heroes, Miss Sáez has come a long way with her golden hair, radiant smile and innocent image.

But she is now seeking to appear more forceful and dynamic in order to dispel criticism that she lacks leadership and is unable to take on the political establishment, which is widely held responsible for squandering the country's oil wealth over the past decades.

With a passionate voice the sober-clad Miss Sáez reminds many observers of Eva Perón, Argentina's revered matriarch and champion of the poor.

Her well-rehearsed rally reveals a sophisticated public relations machine – a new, Hollywood-style, image-driven campaign, hitherto little known in Venezuela.

Though Miss Sáez insists she remains independent from traditional parties and politics, she has close contacts with Copei, the Social Christian party, which could decide to back her in an internal party vote on Thursday.

Political analysts say separate but allied campaigns would gain Miss Sáez and Copei more votes in total. They say Miss Sáez would alienate many of her supporters if she were seen as an official candidate of a traditional party.

"Miss Sáez has established her conditions. It is now up to Copei to decide whether they want to accept them," insisted Antonio José Herrera, a leader of the "Force of Change" movement, an alliance she formed last week with two minor parties, including the leftist Causa Radical. She has also resigned from her job as mayor of the Caracas district of Chacao.

In future rallies, Miss Sáez is expected to stress her achievements in Chacao, where she has earned high marks for reducing crime, balancing the budget, and improving public services.

Smart-looking police on roller skates and mountain bikes crack down on traffic violators, and mobile health-care units provide free assistance on the streets. "I want Venezuela to be orderly and modern – part of the first world," she has said.

NEWS DIGEST

UNDERWRITING QUALITY UNDER FIRE

US banks have eased loan standards, say FDIC

US banks have eased their standards for making loans in the last six months, particularly for commercial real estate deals and construction lending, according to a report by the Federal Deposit Insurance Corporation.

Loose underwriting standards for real estate loans were one of the chief reasons for the banking crisis in the US at the beginning of this decade when several banks, led by Citicorp, came close to insolvency. Many loans made to finance property construction at the peak of the real estate boom had to be written off.

According to the report, 31 per cent of the 387 banks which made construction loans now "frequently funded speculative construction projects" compared with 18 per cent a year earlier. It also found 13 per cent of the 612 banks which making commercial real estate loans failed to consider repayment sources other than the project being funded – up from 8 per cent last year. **John Authers, New York**

PARAGUAY ELECTION

Cubas confident of victory

Paraguay's ruling Colorado party led by Raul Cubas Grau yesterday expressed confidence it would win the country's general election after international obervers played down claims by the *opposition Democratic Alliance of wholesale* fraud .

Exit polls and a detailed survey by Saka, the respected local non-governmental organisation, showed the Colorados between 6 to 10 percentage points ahead of *the Democratic* Alliance.

Domingo Laino, leader of the opposition Democratic Alliance, was quick to accuse the ruling party of trying to win by "monumental" fraud. But international observers, under the auspices of the Organisation of American States, said voting in the weekend election had been relatively peaceful and efficient, though there had been evidence of minor abuses. **Ken Warn, Asuncion**

YACYRETA DAM PROJECT

World Bank issues apology

The World Bank has formally apologised for attempting to play down the criticisms contained in an internal report over its handling of the $8.5bn Yacyreta dam project between Argentina and Paraguay.

In a letter sent last week to a Paraguayan environmental group, the bank conveys the "profound concern" of its president, James Wolfensohn, over the issue.

An earlier letter from Isabel Guerrero, then acting vice-president for Latin America at the bank, written in February to the binational agency responsible for the dam's construction, said the report had concluded the bank's handling of the project had been satisfactory. This letter was made public in a Paraguayan newspaper, and prompted a storm of criticism from environmental groups.

The latest letter admits the report, from the bank's internal inspection panel, was critical of the project over its entire 14-year life, saying it suffered from "fundamental problems", including serious health hazards arising from its failure to meet resettlement goals. **Stephen Fidler, Washington**

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'ARMS-TO-AFRICA' OPPOSITION CLAIMS GOVERNMENT'S 'ETHICAL' FOREIGN POLICY HAS BEEN TORN UP

Blair praises accused Sierra Leone envoy

Andrew Parker in London and Michela Wrong in Nairobi

Tony Blair, the UK prime minister, yesterday changed tack in the government's response to the "arms-to-Africa" affair, lavishing praise on the British diplomat accused of co-ordinating the supply of arms to Sierra Leone in breach of a United Nations embargo.

The prime minister said Peter Penfold, the British high commissioner to Sierra Leone, was doing a superb job, and that Britain had been right to help restore to power the west African country's democratically elected president.

The opposition Conservative party, which is demanding a public inquiry into the affair, claimed that Mr Blair had in effect torn up the "ethical" foreign policy trumpeted by Robin Cook, the foreign secretary.

Mr Blair's intervention follows strong protests by senior Foreign Office officials, who believe they are becoming scapegoats in one of the biggest crises to so far face the Labour government. Sandline, the British firm of military consultants accused of breaching the UN embargo by supplying arms to Sierra Leone, has claimed that its operation was initiated and approved by Mr Penfold.

Mr Cook, who has maintained that no ministerial authorisation was given to Sandline's activities, last week made plain he was angry with officials for failing to inform ministers about a Customs & Excise investigation into the company.

Mr Blair also said last Wednesday that any officials found to have infringed UN resolutions would be disciplined.

But yesterday Mr Blair dismissed the controversy over the role allegedly played by British officials as a issue which had been overblown. He said: "Don't let us forget that what was happening was that the UN and the UK were both trying to help the democratic regime restore its position from an illegal military coup. They were quite right to do it."

President Ahmed Tejan Kabbah, the Sierra Leone president, was restored to power after a counter coup led by Nigerian troops and supported by British mercenaries in March.

Mr Blair stressed that it would have been wrong to become involved in breaching UN sanctions.

Meanwhile, Julius Spencer, the Sierra Leone information minister, said he did not believe the British government had been involved in the $10m deal between Sandline and President Kabbah for the supply of arms.

It emerged last night that the government cut back its aid programme to Sierra Leone after the coup last year.

ActionAid, a charity, claimed that the Department for International Development's decision was part of an effort by the Foreign Office to undermine the junta.

Colonial heritage provides potential African flashpoints

The continent appears to be low on the UK foreign secretary's agenda, Michael Holman and Michela Wrong are told

The African minister was *furious. "The British foreign secretary is just not* interested in us," he exploded.

His country, one of Britain's former colonies, is gripped by its most serious political and economic crisis since independence. But the minister's efforts to discuss it with Robin Cook, his British counterpart, while passing through London just days before had failed. At a stopover on his way home, he was letting off steam: "Africa is way down his agenda".

As recriminations and accusations are exchanged over Britain's role in Sierra Leone, many officials in the Foreign Office and British diplomats serving in missions in Africa will echo this view. Until the Sierra Leone issue blew up, Mr Cook made clear that his priorities lay elsewhere – in Europe, Asia and the US. He regularly resisted attempts to provide more time for visiting African ministers, British ambassadors and high commissioners posted to the region.

"It has left the impression," says one African ambassador in London, "that Africa policy is now mainly seen in terms of aid and *debt" – handled by Clare* Short, at the international development department and Gordon Brown, the chancellor of the exchequer.

But Britain's ties to Africa – through its colonial heritage as well as trade and investment – are more important than for any other industrialised country except France. "Historical, cultural, commercial and military links continue to give Britain a vital role," says a British businessman with interests in Africa. "But more often than not, it is a responsibility it declines to shoulder."

'It has left the impression,' says one ambassador 'that Africa policy is seen in terms of aid and debt'

Four former colonies stand out as potential flashpoints: Kenya and Zimbabwe, where the reign of two political autocrats is coming to end; Zambia, where hopes for good governance have been dashed; and Nigeria, where the military regime has locked up its opponents and is blatantly rigging a trans*fer to democratic control.*

The two most pressing are Nigeria and Kenya. Nigeria is Africa's most populous state, its leading oil exporter and the most important military power in west Africa. It is also Britain's leading trading partner apart from South Africa and a vital source of oil production for Shell, Mobil, Elf and Agip.

But Nigeria provides the best example of the weakness of British policy in the face of a complex problem. Gen Sani Abacha, military ruler since 1993, has deliberately delayed a return to civilian rule and dismissed international efforts to promote human rights.

Attempts to impose tougher sanctions – the regime is subject to visa restrictions and a ban on arms imports – have met with British hesitancy. In the Commonwealth, from whose membership Nigeria has been suspended, Canada has made the running. While the Commonwealth is contemplating measures including an asset freeze and suspension of air links, the British government is backing British Airways' efforts to resume its lucrative service to Lagos.

Revolutionary United Front soldiers celebrate in 1997 after ousting President Kabbah. The RUF regime has itself now been overthrown AP

In Kenya, the most developed economy in East Africa, political tension is growing. Here, also, Britain has substantial trade and investment links.

The two countries also have a military co-operation agreement which caters for shared intelligence and allows British troops to exercise on land in northern Kenya using live ammunition.

A confrontation with President Daniel arap Moi, just re-elected for a fifth five-year term, would put such interests at risk.

Another danger also haunts London: that conditions in Kenya would become so bad that the thousands of Kenyan Asians with British right of abode would flee the country in a repeat of the exodus from Uganda 25 years ago.

This explains the ambivalence in British policy towards the country in recent years. But the line from London has undoubtedly hardened in recent months.

"We've been sending out a very frank message: 'new Britain, new Kenya'. It has been made extremely clear," says one official.

The stance has been underlined by the little-noticed blocking of exports of riot control equipment to the Kenyan police, an effective vote of no confidence in the security apparatus. And while Britain has not taken the lead in supporting last August's suspension of aid by the International Monetary Fund, it is participating in an aid go-slow instituted by the European Union.

Africa dropped down the international agenda when the cold war ended, as its strategic significance in superpower relations diminished.

But the continent has retained a capacity to force its way into the public gaze.

The US suffered a bloody nose in its attempt to intervene in the civil war in Somalia, while France is still grappling with the repercussions of its involvement in the Rwandan genocide.

The concern in the Foreign Office is that unless Mr Cook puts Africa higher on his list of concerns, Sierra Leone will not be the last time that the foreign secretary appears to have been caught unprepared.

Martin Wolf, Page 18

BA urges rejection of easyJet court bid

By John Mason, Law Courts Correspondent

British Airways asked the High Court in London yesterday to halt a legal action brought by easyJet, a low-cost airline. EasyJet has asked for an injunction to ground Go, BA's rival low-cost operator.

EasyJet is seeking an injunction to prevent BA illegally cross-subsidising its new airline, which is due to start operating this month.

The low-cost operator has accused BA of breaching article 86 of the European Community's Treaty of Rome by abusing its dominant market position to stifle competition. EasyJet said BA had released insufficient information to enable outsiders to make judgments about the size of any subsidies to Go.

But BA asked the court to strike out easyJet's claim as unsustainable in law. A lawyer for BA said the commercial opportunities offered by competitive deregulation of European routes were being exploited by airlines such as easyJet, Virgin, Debonair, Ryanair – and now Go, with flights initially from London to Rome, Milan and Copenhagen.

EasyJet complained that BA was unfairly subsidising its subsidiary by guaranteeing its aircraft leases, thus lending BA's creditworthiness to Go so that more favourable rates of hire could be negotiated.

It was also said that Go benefited from the brand image effect because customers would believe that a company associated with BA would have higher standards of reliability and safety.

BA said the suggestion that it was abusing a dominant position in the scheduled airline market by setting up and assisting a subsidiary in the low-cost market – where it had no dominance – was unsustainable.

The case continues.

BA urges rejection of easyJet court bid

SHARE ISSUES COMPETITION WATCHDOG INVESTIGATING TWO COMPLEX MONOPOLIES

Cartels alleged in underwriting

By Jane Martinson, Investment Correspondent

The Monopolies and Mergers Commission said yesterday its six-month inquiry into the UK system of underwriting share issues for companies had found evidence of two cartels.

In provisional findings made public for the first time yesterday the MMC set out 28 points for discussion in deciding whether the two complex monopolies it had found were against the public interest. It also put forward 15 possible remedies, including making the tendering of sub-underwriting fees mandatory.

The commission's final judgment is scheduled for publication on November 20. But few who read yesterday's report believed it would leave the existing system unchanged.

The provisional findings indicated there is a complex monopoly in both the supply of lead underwriting and sub-underwriting, where standard fees are charged in more than 25 per cent of all cases.

Traditionally, UK companies have been charged 2 per cent of the money they raise from new issues. UK investment banks and institutional shareholders have argued that the system was already changing, with an increase in the use of non-standard fees.

But the inquiry has found that investment banks with an 88 per cent share of the lead underwriting market charged standard fees in more than 25 per cent of cases.

Denise Kingsmill, chairman of the inquiry, said: "It is very difficult to see how standard fees can be competitive because you are paying the same price for different levels of risk."

Although Ms Kingsmill stressed that yesterday's report was only provisional, she questioned whether the system would change without further intervention. "The question is: would these changes have happened by themselves? And will they continue to happen without the continued input from the competition authorities?"

Most in the industry welcomed the opportunity for further debate. John Rogers, director of investment services at the National Association of Pension Funds, said while he was surprised that sub-underwriting had been found to be a monopoly, the eventual decision would rest on the definition of public interest. "I think you'll probably find a small number of investment banks, not necessarily of UK origin, which are used to operating in a different market place and used to charging higher fees."

Lex, Page 26

'MAD COW DISEASE' COMMISSION TO OFFER PLAN NEXT MONTH

EU ministers soon to review beef export ban

By Michael Smith in Newcastle upon Tyne

European Union farm ministers will next month consider ending a ban on beef exports from mainland Britain, raising hopes that exports could start later this year.

Franz Fischler, EU farm commissioner, said yesterday that a European Commission plan allowing exports of cattle born after August 1996 would be presented to farm ministers at their June meeting.

He said he hoped Northern Ireland would be able to start exporting beef later this month or early in June.

Mr Fischler was speaking after the UK government demonstrated to EU farm ministers at an informal meeting in Newcastle upon Tyne, north-east England, how they are fighting BSE, or "mad cow disease" with a cattle tracing system.

Ministers and their officials appeared impressed by a system which traces the movements of cattle from birth to delivery of the meat to retailers. However, several have still to be convinced that the ban on mainland Britain should be lifted.

Franz-Josef Feiter, German farm ministry secretary, described the system as "Europe-compatible," but added: "There is a difference between establishing a system of accurate tracking and actually lifting the ban because there is a particular BSE situation in the UK." It is thought unlikely that Germany would support a lifting of the ban on mainland UK beef before its national elections in September.

Mr Fischler said yesterday it was possible ministers could approve the scheme for mainland Britain on first consideration next month. Most EU officials think that is unlikely, but that an end of the ban this year looks increasingly possible. The ban was imposed in March 1996 after UK scientists found a possible link between BSE and new variant CJD, a similar disease affecting humans.

Wilhelm Molterer, Austrian agriculture minister, said he was impressed by the work the British government had done to try to end the beef ban but he warned that there would have to be more discussion before any proposals were adopted.

Austria will take over the rotating presidency of the EU from July.

The Commission's scheme for allowing the export of cattle born after August 1996 will be presented shortly to the EU's standing veterinary committee.

Call for hens to be liberated

The UK should use its presidency of the European Union to end the use of cages for battery hens, animal welfare campaigners – led by Compassion in World Farming – said yesterday. They plan to stage a demonstration tomorrow outside the hotel hosting the EU farm meeting. The protesters say they are angry about recent European Commission proposals which fail to include a ban on cages for egg-laying hens. Instead, they propose minor changes such as a small space increase per hen, a measure which would still prevent hens carrying out most normal behaviour, such as flapping their wings or laying eggs in a nest.

Balance sought for work and leisure

British Telecommunications is setting up a "national work-life forum" at the government's request to explore ways of working that produce a better balance between the demands of business and employees' personal lives, Alison Maitland writes. It will be chaired by Joanna Foster (above), former head of the Equal Opportunities Commission and director of the BT Forum, which promotes more open communication to handle social change. The new forum is designed to complement initiatives on childcare, working families and the European parental leave and working time directives.

Dresdner examines viability of London funds HQ

By James Mackintosh in London

Dresdner RCM is examining the long-term viability of London as a base for its investment funds, with Dublin and Luxembourg as options for relocation. The two cities are more popular with European investors.

The company was formed from the merging of the investment management operations of Kleinwort Benson and Thornton.

The review comes as Dresdner RCM is planning to rationalise its overlapping unit trust (mutual fund) range, merging 18 trusts worth £636.5m ($1.06bn) into just eight funds. A total of 23 trusts would be on offer after the mergers, assuming they receive approval.

The consolidation of trusts is the first step in reorganisation. The creation of a London-based open-ended investment company (oeic) to act as an umbrella fund is due next. Each trust would be a sub-fund to the oeic.

But Stephen Westwood, assistant director of Dresdner RCM, said he was keeping a close eye on Threadneedle, a competing manager which this year moved its Luxembourg-based Sicav, similar to an oeic, to London.

Some smaller managers have mooted moving their funds' domicile to Dublin to cut costs. "My present thinking is that for oeics London is the home," Mr Westwood said. He acknowledged costs were higher in Luxembourg than London, and added: "The more that we can cut costs and consolidate, the more efficient we are and the better off our customers are."

Dresdner RCM has around £1bn in UK unit trusts and another £1bn offshore, spread across Dublin, Luxembourg and the Channel Islands between England and France.

NEWS DIGEST

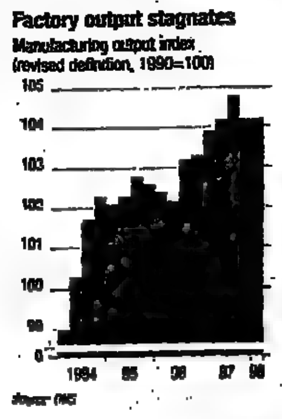
COAL INDUSTRY

Block on gas-fired power stations is condemned

The government yesterday came under renewed attack over its efforts to ensure the survival of the coal industry after it proposed blocking the construction of new gas-fired power stations, even where consent had already been granted. Developers attacked the move as "not worthy of a third world government" and said it threatened the UK's position as a centre for private sector power projects. The Confederation of British Industry, the employers' lobby, is pressing the government not to extend the moratorium on new gas-fired stations. Opposition to the moratorium has the full backing of the CBI's energy committee, which represents all sides of the industry, including coal. Adair Turner, CBI director-general, has warned ministers that such a move would cost thousands of jobs and alienate potential inward investors. David Wighton, London

MANUFACTURING

Sector slides into 'recession'



UK engineering companies are continuing to step up production despite the strong pound, but not enough to stop manufacturing as a whole from slipping into recession. Factory output fell by 0.1 per cent in the first quarter, following a 0.5 per cent drop in the previous quarter. Two successive quarterly declines means the sector is technically in recession. But the picture in recent months is one of stagnation rather than decline. Factory output was unchanged in March, with official statistics estimating a flat underlying trend for the fourth successive month. Meanwhile, the British Retail Consortium reported weaker trade in shops this spring than last year, with the value of sales growing 2.75 per cent a month over March and April. But the figures had little impact on interest rate expectations, with attention focused on tomorrow's inflation report from the Bank of England, the UK central bank. Manufacturing is expected to remain weak. Robert Chote, London

PRIVATISED RAIL COMPANIES

CGE offshoot fined $2.3m

An English privatised train company owned by Compagnie Générale des Eaux of France yesterday received the heaviest penalty among eight imposed by the rail franchising director. John O'Brien. Connex South Eastern was ordered to pay £1.36m ($2.27m) for a combination of poor punctuality, cancellations and overcrowding on its trains. Mr O'Brien called for "a dramatic improvement in the currently unsatisfactory performance" of the privatised train companies after eight were levied penalties totalling nearly £4m for service failings. Mr O'Brien said: "Passengers have a right to expect performance to improve year on year. Instead, punctuality generally has slipped back." Charles Batchelor, London

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('the KWELM companies')

Notice is hereby given that the fourth ANNUAL MEETING of the Scheme Creditors of the KWELM companies convened pursuant to clause 8.1 of the Scheme of Arrangement ('the Arrangement') will be held at 2.30pm (Pacific Daylight Time) on Tuesday 23 June 1998 at the Park Hyatt at Century City, 2151 Avenue of the Stars, Los Angeles, CA 90067, USA. The Scheme Administrators' report on the conduct of the affairs of the KWELM companies for the year to 31 December 1997 shall be laid before the meeting.

Scheme Creditors may attend in person (or, if a corporation, by a duly authorised representative) or they may appoint another person, whether a Scheme Creditor or not, as their representative to attend in their place. Forms of representation for use at the said meeting, copies of the Scheme Administrators' report and the Arrangement document incorporating the terms of the Arrangement are available on request to the Scheme Administrators at the address set out below.

Dated this 12 May 1998

C J Hughes and I D B Bond
Scheme Administrators
of the KWELM companies

Address for correspondence:
Coopers & Lybrand
Plumtree Court
London EC4A 4HT
United Kingdom
Telephone + 44 171 583 5000
Fax + 44 171 212 6708

Note

A London meeting of the Scheme Creditors of the KWELM companies will be held at 2.00pm on Thursday 2 July at the Coopers & Lybrand Training Centre, 2-3 Bloomsbury Square, London WC1 2RL, United Kingdom, for creditors who find London more convenient than Los Angeles.

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MANAGEMENT PROFESSIONAL SERVICE FIRMS

Growing pains from an excess of success

Globalisation of business and a merger culture has led to a huge increase in the demand for professional services – but is double-digit growth sustainable, asks **Tony Jackson**

They are among the world's fastest-growing organisations, doubling in size every few years and stretching their tentacles into more and more corners of business life. Each year they suck in a huge share of the world's best and brightest young workers. Most of them they later eject – the rest they make millionaires.

These are the professional service firms: the management consultants and corporate lawyers, the auditors and financial advisers. Almost all are private partnerships: governed by consent, not answerable to outside providers of capital. They thus present an increasing challenge to the traditional corporate way of doing business.In a series of pieces this week, we address three main questions.

How far is the growth of these firms sustainable? What can be learnt from the way they govern themselves? And is their management of human and intellectual capital the way of the future?

First, the growth issue. Typically, top professional service firms are growing at 15 to 25 per cent a year. As a revenue figure, this might not sound exceptional. But since their product is people, numbers employed are growing at a similar rate. So even at the lower rate firms are doubling their headcount every five years.

Why is this? The head of one big London law firm cites two chief factors: the extension of markets into more areas of life and the globalisation of business.

Privatisation, he points out, creates huge demand for legal, financial and advisory services. So does the vogue for shareholder value, which is causing more corporations to look at the world through the market's eyes.

The globalisation point is illustrated by the current boom in mergers and acquisitions. As the senior partner of one accountancy firm observes, when a US company decides to enter a foreign market by acquisition, it creates a demand for professional advice in that jurisdiction.

There is a more fundamental reason. Competition is forcing corporations to make their operations as lean as possible. This applies as much to human inventory as to materials.

Thus it makes no sense for a company to carry enough legal staff to handle the occasional big deal or enough managers to staff a one-off project on the other side of the world.

Instead, the professional service firms act as warehouses for intellectual talent. They can afford this chiefly because they enjoy growth rates denied to most of their clients.

If this seems a virtuous spiral, there are a couple of potentially serious problems. First, the issue for partnerships is sometimes not how fast they can grow, but how fast they must grow.

Professional firms compete in two markets: that for clients and that for staff

The point is developed by an industry authority, the US academic and consultant David Maister. Professional firms, he points out, compete simultaneously in two markets: that for clients and that for staff.

The pyramid structure of firms means they have a number of junior staff – between six and 20, depending on the business – for each partner. Some of those will drop out. The good ones, if they are to stay, need the promise of a partnership. Arithmetically, the firm has to grow at a minimum rate – perhaps 15 per cent a year – to accommodate them.

Whether this is desirable is another matter. Suppose a firm doubles in size while keeping the same number of juniors per partner – or leverage, in the jargon – doing the same sort of work. It follows that the number of partners will double as well and the profit per partner – the best single measure of a firm's performance – will be unchanged.

Meanwhile, the complexity of the firm and its overheads will grow in proportion. "Growth in itself," the head of one big law firm remarks, "doesn't do a damned thing for you."

Growth is also increasingly difficult to come by for quite a different reason. The biggest single headache for professional service firms, senior partners will unanimously tell you, is attracting enough bright young people.

Partly, this is because the absolute numbers required are growing exponentially. But there are also two factors limiting supply: increased competition from the corporate world – the "war for talent", in the industry buzzphrase – and the shrinking number of young people in the population.

Paul Mitchell, UK head of the Boston Consulting Group, says: "10 years ago, the career options in industry were very limited. Now, the pharmaceuticals, packaged goods or retail industries have absolutely woken up to providing career opportunities and rewards."

The demographic problem is becoming steadily more acute across the developed world. The ideal recruitment age for professional service firms is around 25. The total UK population has risen 5 per cent since 1971, but the number of under-25s has dropped by 14 per cent. In the US, the total population has risen 30 per cent and the number of under-25s has remained static.

"If you are growing at 25 to 30 per cent a year," says Peter Smith, UK head of accountants Coopers & Lybrand, "that's a very real challenge. You can't simply shovel in graduates in ever increasing numbers. So you need to be more adaptable and imaginative in how you supply the resource."

How firms approach this varies with the nature of their businesses. The big law firms are typically taking more non-law graduates. The management consultancies are employing fewer MBAs but more raw graduates and seasoned managers.

Some seek to spread the geographical net. McKinsey's UK head, Ian Davis, says his 600-strong London office relies increasingly on eastern Europe and India for recruits and employs people of 46 nationalities. "We worry about the demographics in western Europe and the US 10 years out," he says. "We'll look to Chile and Argentina, where the demographics are going the other way. And suppose in 20 years' time we have the equivalent of MIT or Oxford in Shanghai or Delhi?"

The alternative approach is to use people differently: to rely less heavily on bright young things. Coopers & Lybrand, for instance, now employs around 15 staff per partner where once it employed 10. The logical consequence is that fewer of those juniors can hope to be partners.

"We need to be more imaginative in our people flows," Mr Smith says. "We'll have to drop down [in quality], and we may need more technology to balance their lack of experience, wisdom or even potential."

That may be feasible in the auditing profession. But at the high end of the business – in strategic management consulting, for instance – there is less room for manoeuvre.

Such firms have traditionally applied a system of "up or out". Every few years, staff – and, in some cases, partners – are assessed on whether they have further potential. If not, they are asked to leave. Plainly, one answer to the people shortage would be to relax this principle. But, says Paul Mitchell of Boston Consulting Group, "our business will be significantly damaged if we kid ourselves that simply by retaining people who are good but not good enough, we can credibly meet increases in client demand. That's a doom loop. The demand would dry up."

Mr Davis agrees. "We have discussed up or out and have affirmed that we will continue it. Nor will we increase our leverage. We need to maintain standards on recruitment and advancement."

This leads him to a simple conclusion. "We have decided not to go for growth as a paramount objective." But will that not mean a loss of market share? "Unquestionably – insofar as that means anything in this business."

So there we have it: the professional services firm par excellence – and the first choice as employer, year by year, of MBAs on both sides of the Atlantic – is not going for growth.

There is, perhaps, an element of tactics here. McKinsey claims never to have had growth targets. That has not stopped it producing double-digit growth for half a century and more.

But the general conclusion is clear. Demand for professional services seems assured; the ability to satisfy it, at the level of quality to which the market has become accustomed, is a good deal less so.

Professional service firms, then, are unlikely to take over the world. But will they show it how to govern companies and manage people? We will return to these topics in the next two articles.

This is the first of three articles on the management of professional service firms. The second will appear tomorrow.

FT GUIDE TO THE VATICAN

The power (and money) behind Peter's throne

Life in the Vatican is often viewed as a web of intrigue but the reality is more mundane – and significant, says **James Blitz**

Is it my imagination or is the Vatican making the headlines more and more these days?

There has always been strong interest in the activities of Pope John Paul II, arguably one of the most important figures of the late 20th century. In recent months the interest has intensified. Last week's assassination of the head of the Swiss Guard inside the Vatican shocked the world. The Pope's visit to Cuba in January saw him confronting one of the last vestiges of communist rule. A recent statement by the Vatican on the Jewish Holocaust triggered controversy. And there is concern about the health of the Pope, who will be 78 next week and whose frailty raises questions about the succession.

For Roman Catholics, what the Pope says and does is of huge significance. Should the rest of us care about what happens in the Vatican?

The Pope leads one of the most powerful ideological movements on earth. There are 1bn Roman Catholics worldwide. The Vatican has authority over some 4,257 bishops in 2,646 dioceses. The teachings of the church, especially its objection to abortion and contraception, have an impact of huge significance on human behaviour.

So is the Pope the world's last great autocrat?

That is going a touch far. People often think the church is structured like a Burger King franchise with the Pope setting policy and giving orders while the bishops stand behind the counters. In fact, the Second Vatican Council (1962-1965) strengthened the influence of bishops, making clear they were vicars of Christ for the people in their dioceses. However, some people believe the Pope has since eroded the bishops' power back to pre-Vatican II levels.

He isn't running the Vatican on his own, is he? There must be a remarkable maze of power behind those high fortress walls?

Yes. "The Vatican" is really a term describing two bodies. First, there is Vatican City State, a sovereign country recognised under international law. The Pope is its absolute monarch but its 108 acres are actually administered by an executive called the Pontifical Commission, in whose affairs he plays little part. The commission runs, among other things, a police force and an immensely efficient post office. It has a railway station and issues car licence plates (the Pope's stretched limo is SCV001).

It sounds a bit like a medium-sized company.

Of far greater importance is the Holy See, group headquarters of the worldwide Catholic movement. At its heart are 20 congregations and councils, each devoted to issues such as "pastoral assistance" or nominating saints. They act like government departments. Real power in the Holy See lies with the Secretariat of State.

Who are the influential people here?

The most important is Cardinal Angelo Sodano, an Italian who is the Secretary of State. He is effectively the number two in the Vatican, a kind of prime minister with day-to-day responsibility for running the Holy See since 1990. Another important figure is Bishop Stanislaw Diwisz, personal secretary to the pontiff, who has known him since Krakow days. Thomas Reese, author of *Inside the Vatican*, says he is "the most powerful personal secretary in recent times" and that even Cardinal Sodano defers to him on occasion.

What is the state of the Vatican finances? Or doesn't one ask that sort of question?

Horror stories about the Vatican Bank – involved in the 1982 crash of Banco Ambrosiano – are now in the past. In 1994, it was audited by Price Waterhouse and it is thought to have deposits of about L7,000bn (£2.3bn). There has been much more concern in recent years about the annual budget for the Holy See. For years this was in the red, but last year the Holy See posted operating expenditure of L311bn, matching income of L312bn.

The Holy See's income mainly comes from managing its real estate (valued at L781bn in 1994) and from managing an internationally diversified portfolio of stocks and bonds (valued at L495bn the same year). The Vatican also receives Peter's Pence, an annual contribution from dioceses. When St Peter needed to pay the Temple tax, Jesus worked a miracle for him (Matthew 17:27). For all the troubles of recent years, it seems a miracle is no longer needed.

The last and inevitable question. Who is in the running for Peter's throne?

One of the strongest candidates is Carlo Maria Martini, the tall, intellectual archbishop of Milan. But he is every media commentator's favourite and there is a saying in Rome that when the issue arises, "he who enters the conclave as Pope comes out a cardinal". Another potential candidate is Jean-Marie Lustiger, Archbishop of Paris, a convert from a refugee Jewish family. Another name mentioned is Lopez Trujillo, the Latin American conservative. But the Pope's strong will is legendary and the job may not come up for a while.

LAW AND PEOPLE

PEOPLE ON THE MOVE

Einhorn to leave World Bank after 18 years

Jessica Einhorn, for years the most senior woman at the World Bank, is leaving the institution after 18 years. She steps down on September 1 as one of the four managing directors who report directly to James Wolfonsohn, the bank president.

She was the first woman to reach the position of vice-president at the Bank, when she was appointed treasurer, and later became its first woman managing director, charged with finance and resource mobilisation.

She is well-known in the international financial markets, and played an important part in the first swap operation, the development of the global bond, and in the field of derivatives. After leaving the bank, she will spend a year with the International Monetary Fund as a visiting fellow.

Asked why she decided to leave, she said "I turned 50 and have spent 18 years at the bank." Having spent the last couple of years "working with colleagues to put in a financial governance structure and a controlled risk management function", the question was, she said, whether "to change or embrace another three to five year period."

Einhorn, who has a doctorate from Princeton and was a Fulbright scholar, has worked previously with the US Treasury and at the State Department. Her first "real job" was as "the most junior person in the monetary office of the US Treasury" charged with drawing up a detailed explanation of changes in the articles of the IMF.

She will begin at the IMF looking into issues of global finance and systemic risk. Initially, she will be interested in the question of to what extent critical assessments of events leading up to financial crises contribute to strengthening financial systems. In the mean time, however, the day-to-day business of the World Bank - including the end of its financial year at the end of June - will intervene.

No successor has been appointed, but a search for one is under way inside and outside the bank.

Stephen Fidler, Washington

Dolphin rises at Bombardier

Bombardier, the Canadian manufacturer of trains, aeroplanes and snowmobiles, is streamlining the management of the portfolio of European rolling stock companies assembled over the past decade.

Bernard Dolphin, currently president of Bombardier companies in France and Belgium, has been appointed president of Bombardier Transportation's newly created Atlantic Europe division, covering the UK, Belgium, France and Switzerland.

At the same time Peter Witt, currently president of the recently acquired Deutsche Waggonbau (DWA), has been appointed president of Continental Europe, which takes in Germany, Austria and the Czech Republic.

Dolphin, 59, has spent his career in the rolling stock industry, starting with Jeumont Schneider in France in the 1950s and including a period running its Brazilian subsidiary. He headed Bombardier subsidiaries BN in Belgium and ANF Industrie in France up to his latest appointment. He will be based in Crespin, northern France.

Peter Witt, also 59, has been a tax adviser and held financial jobs in a range of German companies before joining rolling stock manufacturer DWA in 1990. He will be based in Berlin.

The two new divisions will reduce the number of managers reporting to Bombardier Transportation head Jean-Yves Leblanc at corporate headquarters in St Bruno, Quebec, and mirror the corporate structure currently in place in North America. "It also reflects the way Europe is opening up and becoming more international," Leblanc said.

It should be easier to achieve savings by reducing duplication of activities between the individual companies while technology and best practice can be shared more easily.

More competitive conditions in the world market for rolling stock are also forcing change on a traditional sector. Deregulation and privatisation of railway administrations is creating a new customer base which judges its trains on a mix of performance, cost and quality rather than simply the sophistication of their engineering.

Bombardier claims 17 per cent of the world market for passenger rail cars. It employs 13,000 people in 22 plants in 11 countries and has an order book of C$11bn including C$7bn in Europe. A recent addition was an £850m order from Richard Branson's Virgin Rail for new tilting trains for its UK cross-country network.

Charles Batchelor, London

Budinsky to chair exchange

The Prague Stock Exchange has turned to the country's largest bank - and one of its major shareholders - to guide it out of troubled waters, appointing Petr Budinsky, the deputy chief executive of Komercni Banka, as its new chairman.

Budinsky will, however, keep his responsibilities at Komercni, the largely state-owned commercial bank, and will only be non-executive, in contrast to his predecessor Tomas Jezek. The management of the bourse will be left to a new general secretary whose post will be advertised later this month.

Both will have to work hard together to improve the stock exchange's reputation for untransparency, insider trading and poor investor protection. Budinsky, 38, recognises that to achieve this the bourse must work more closely with the new securities commission. "The relationship must improve. I believe it will definitely improve," he says.

He says his priority will be to increase the bourse's liquidity. Currently around 95 per cent of trades are made off market and simply registered at the government's Central Securities Register. Budinsky says the new SPAD continuous trading system, which is to be introduced later this month, should help change this.

Budinsky has had a meteoric rise since, as a polytechnic maths and finance lecturer, he was elected to Komercni's supervisory board in 1993 by the employees. He became the protege of chief executive Richard Salzmann and joined the executive board two years later and is talked about as a future head of the bank. Salzmann, 68, the grand old man of Czech banking and himself a former bourse chairman, resigned as Komercni chairman earlier this year and is rumoured to be planning to retire as chief executive next month.

Budinsky's rapid promotion and lack of experience have raised eyebrows in Prague's conservative banking world. He already occupies a hot seat in charge of the bank's investment business as Komercni prepares for full privatisation and struggles to provision its non-performing debts. Sorting out the problems of the stock exchange as well will test his mettle.

Robert Anderson, Prague

Morgan Stanley hires Simonian

Morgan Stanley, the investment bank, has appointed Rair Simonian, a well known figure in the Russian oil industry, to head the bank's Russian operations. From 1996-1997 Simonian had served as first vice-president of Rosneft. Rosneft is the largest Russian oil company which has not yet been privatised and its sale this month is expected to be one of the biggest business events in Russia this year.

Simonian's appointment is a sign of Morgan Stanley's decision to devote more energy to and seek a higher profile in the Russian market.

De Swann joins ABN Amro

Tom de Swann, the Dutch central banker who has been responsible for the supervision of the banking industry in the Netherlands, has taken the unusual step of joining a commercial bank.

He will move to ABN Amro, the Dutch Bank, in June but will spend an eight-month cooling off period before joining the managing board on January 1. De Swann, 52, will resign as chairman of the Basle Committee on Banking Supervision. Consultations on the timing of his resignation from the committee are being held within the Group of 10, the framework in which the Basle Committee operates.

It is understood that nobody has moved since 1948 from De Nederlandsche Bank, the central bank of the Netherlands, to a commercial bank.

Joining the central bank in 1972, de Swann became a vice-president in 1985 and a year later he was appointed to the board.

Lisa Wood

Arlman to head federation

Paul Arlman, one of the intellectual driving forces behind the Amsterdam Stock Exchange, which merged with the European Options Exchange last year, has been appointed secretary-general of the Federation of the European Stock Exchanges.

LEGAL SERVICES THE INTERNET

Delivery of help to millions

The internet will provide better access to advice and guidance for companies, says **Robert Rice**

The high overheads associated with running a large commercial law firm in the 1990s threaten to price most City law firms out of the market for standard commercial legal advice.

The response of increasingly sophisticated legal services buyers when faced with high City hourly charging rates for standard commercial legal work has been to move their bread and butter work out to the regions where the cost base is lower. The City firms' loss has been the national and regional firms' gain.

At the international level, the problem faced by the large commercial law firms is, if anything, worse. Many multinational clients would be delighted if their main legal advisers were able to provide them with standard commercial legal advice everywhere that they operate in the globe.

But the high costs of operating in the world's leading financial and business centres makes the provision of standard commercial legal advice on a bespoke basis prohibitively expensive. As a result multinational companies go without advice which they know they need but which they feel they cannot afford.

In his book, *The Future of Law*, Richard Susskind suggests that to stay in business lawyers are going to have to develop different ways of working. In the future law will no longer be dominated by paper and print but by information technology.

Just as guidance on consumer products, investment trends and trading opportunities will be easily accessible on the internet, so will guidance on the law.

IT-based guidance will not replace traditional one-to-one consultative advice for complex, high-value and socially significant work, but it will be an immeasurable improvement on having no access whatsoever to legal help.

IT-based guidance will be less forbidding, more affordable and brought to bear far more frequently than today. And one of the by-products of this will be the provision of legal help to millions of people who are deterred from seeking it because it is too costly, complex or inconvenient – the so-called "latent legal market".

To gain a slice of this market Mr Susskind predicts that lawyers are going to have to become "legal engineers", developing and marketing legal information products.

Some law firms have made a start on the delivery of IT-based products. Australia's Blake Dawson Waldron has produced CD-Roms for its clients on Australian state and federal environmental and health and safety legislation.

In 1996 the UK's Linklaters launched Blue Flag, an online, legal risk management tool to provide commoditised legal advice on European regulatory issues for banks, investment firms, securities houses and fund managers. But no firm has set about systematically making its knowledge base available online to clients across the globe. Until now.

Today Clifford Chance, the UK's largest international law firm, launches the first of its planned online services for international businesses. The first service offered will allow clients to monitor the most important aspects of data protection compliance in 30 jurisdictions via the internet.

IT-based guidance will be less forbidding, more affordable and brought to bear far more frequently than today

Tony Williams, managing partner, says: "We see it as the first of a family. We believe that online services could well account for 20 per cent of our business within five years."

Called NextLaw, the service has been developed by a team led by Christopher Millard, a partner in the firm's media computer and communications group.

The firm chose data protection as the first online service because the new European Union Data Protection Directive is imposing onerous obligations on international businesses and restricting the transfer of customer and employee data worldwide.

"NextLaw will help clients identify data protection and related compliance risks so they can take steps to avoid costly sanctions and adverse publicity," Mr Millard says.

The service is available in two versions on the first launch: one aimed at banks, and covering such things as bank secrecy rules and codes of conduct, and the other aimed at multinationals, which concentrates more on human resources issues such as confidentiality of employee records and works councils.

It was developed over nine months in conjunction with selected clients and extensively market tested by 15 companies. It will be updated monthly and flag up developments in advance. Crucially, it is written in plain English.

The service covers 30 countries and will be available to clients at a cost of £3,000 per country a year with a minimum of 10 countries. There will be no additional charges for dipping in and no restrictions on the number of people who can use it.

Mr Williams says the service is the firm's response to the serious challenge that now faces clients of monitoring and ensuring compliance with ever growing bodies of regulation which affect all international businesses.

"It has been clear for some time that traditional advisory services cannot meet this challenge adequately. In-house legal departments and compliance officers have rightly pointed out that the costs of securing full-scale compliance services in respect of all potentially applicable regulation have become prohibitive," he says.

"The idea is simple. NextLaw embodies the expertise and experience of Clifford Chance lawyers from around the world and that of other leading data protection experts as well. We can now put advice on any desktop, anywhere, anytime, throughout the world.

"For too long, many areas of work have been essentially reactive, often characterised by fire fighting. Clients will now be able to identify in good time the legal risks to which they are exposed and manage those risks in advance systematically and cost effectively," he says.

Clifford Chance believes that in the short term NextLaw will offer it a considerable competitive advantage over its rivals. But Mr Williams stresses that being first into the market is not necessarily the most important factor.

"More important is how useable it is. What do clients want out of it and does it deliver? So the aim is: not the first on screen, but the best on screen," he says.

Export bans apply outside EU

European court

The European Union's competition rules apply to export bans relating to territories outside the EU where the effect of the ban is the prevention, distortion or restriction of competition within the EU and the ban is liable to affect inter-state trade, the European Court of Justice ruled recently.

The judgment arose in the context of a dispute between Yves St Laurent Parfums and Javico International, its distributor for Ukraine, Russia and Slovenia.

Under the distribution contracts Javico International agreed that the products were solely for sale in the three countries and could not be sold elsewhere.

The Slovenian contract described the ban on sales outside the contract territory as necessary to protect the high quality of distribution of the products in other parts of the world.

Shortly after entering into the agreements, Yves St Laurent discovered products supplied to Javico to be sold in Ukraine, Russia and Slovenia, were being sold in the UK, Belgium and the Netherlands. Yves St Laurent terminated the contracts and sued for compensation and damages in French courts.

The action was successful before the tribunal de commerce in Nanterre. Javico appealed, arguing the distribution contracts were void for breach of the EU competition rules. The Versailles Court of Appeal stayed the proceedings and referred the issue to Luxembourg.

The European Court looked first at the impact of the competition rules on an export ban on the distribution of goods outside the EU. It said the impact depended on whether the aim or effect of the ban was to restrict competition to an appreciable extent within the common market and whether it would affect trade between member states.

The Court said the aim of the restriction was to be construed not as being intended to exclude parallel imports within the EU, but rather as being designed to enable the producer to penetrate markets outside the EU.

Thus, the contracts could not be regarded as having the aim of appreciably restricting competition contrary to article 85 of the Treaty of Rome.

However, it said it was for the national court to determine whether such contracts had the effect of appreciably restricting competition.

In the present case the national court would have to determine whether the structure of the EU market in the relevant products was oligopolistic, allowing only limited competition within the EU network for the distribution of the products.

The national court would then have to establish whether there was an appreciable difference in the prices charged within and outside the EU.

The national court would have to determine if the structure was oligopolistic

The effect on inter-state trade was to be appraised by reference to the position of the parties on the market for the products concerned.

Thus, even a contract which imposed absolute territorial protection could escape article 85 if it affected the market insignificantly.

Intra-EU trade could not be appreciably affected if the products intended for markets outside the EU accounted for only a very small percentage of the total market for the products within the EU.

The Court was asked whether the fact that Yves St Laurent's distribution system within in the EU had received an exemption under the competition rules was relevant to the legality of the ban.

The Court said the exemption applied only to agreements within the EU. The same was true for the EU's selective distribution block exemption. Thus, the Javico contracts could not benefit from either exemption.

C-306/96: Javico International v Yves St Laurent Parfums SA, ECJ FC, April 28 1998.

BRICK COURT CHAMBERS, BRUSSELS

Now you see it, now you don't

William Packer on the extraordinary, disorienting effects of Anish Kapoor's sculpture

This latest exhibition of the sculpture of Anish Kapoor, his first solo show in this country in a major public gallery, is as spare as could be wished in its physical arrangement. There are only some two dozen works, yet they require the whole of the Hayward Gallery, upstairs and down, and a couple of the roof-top balconies into the bargain. It is also, in terms of direct physical and visual engagement, as spectacular as anything we have seen in London for some time.

The show is by no means fully retrospective, but the essential continuity of the work is registered nonetheless. Kapoor, who is now in his mid-40s, emerged on the national stage in the early 1980s, and by 1990 had done enough to represent Great Britain at the Venice Biennale, and win the Turner Prize the following year. This show gives us the story since then.

Kapoor's concern has always been with the saturated retinal effect. He admits as much, if somewhat opaquely, in his personal epigraph in the catalogue: "It think it's my role as an artist to bring to expression, it's not my role to be expressive. I've got nothing particular to say..." which is to say, see it, feel it, take it or leave it. This is fair enough, though he does spoil it rather, hinting no less opaquely at having it both ways. "But it is my role ... to define means that allow phenomenological and other perceptions which one might use, one might work with, and then move towards a poetic existence". Take it as you find it, in other words, but please use your imagination, and do try to be poetic with it.

What he found, very early on, was that the pure, powder dry, intense pigment with which he invested his ambiguously symbolic abstracted forms, has the curious effect not so much of annihilating the form as, being non-reflective and light absorbing, becoming the form itself. What is more natural, then, than to turn the idea inside out, taking away the form to leave only the colour, disembodied, yet in a most curious way giving a physical presence to the space, the void it occupied and described.

Please use your imagination, and try to be poetic

Thus it is we have grown used to peering into the orifices Kapoor drops in behind the plane surface of the wall, all but impenetrable until the eye picks out the amorphic internal contours deep within, an organic abstraction fraught with discreetly sexual, even erotic possibilities, all those "Phenomenological and other perceptions".

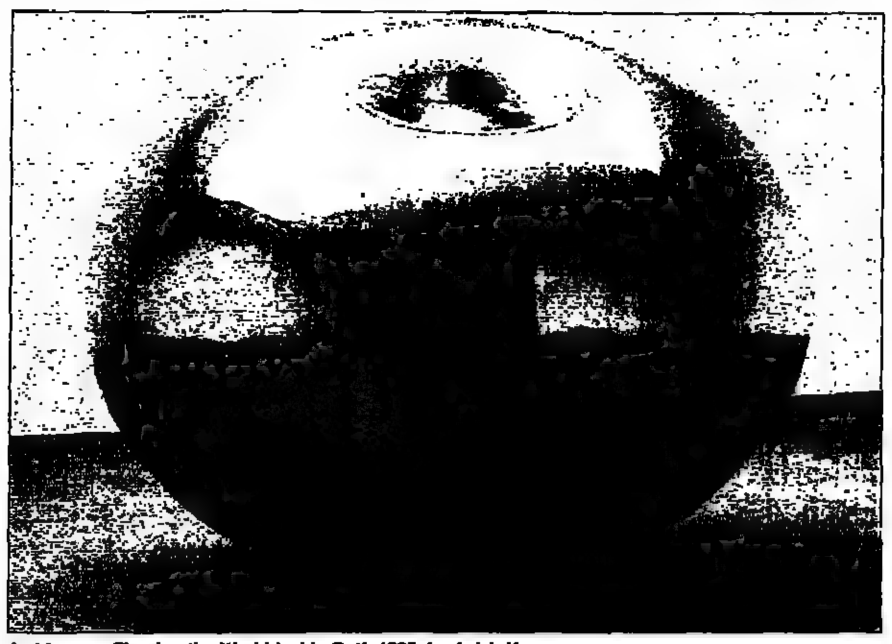
The effects are indeed extraordinary. So abrupt, so extreme, can be the shift from white wall to densest void that the eye can barely comprehend the absence of an actual surface, reading even as a slight meniscoid bulge in defiance of common sense. And Kapoor has gone on to exploit other comparable and no less disconcerting, disorienting effects.

Here is the highly-polished distorting mirror of stainless steel to suck us into the bulge in the immaculate white wall ahead, and as we move past it, to our astonishment, it disappears. Most spectacular of all is the recent "At the Edge of the World", more architectural installation than sculpture, a huge magenta dome suspended some 10 feet off the ground at the rim, 30 feet across and rising as high within. The weight of impalpable colour bears down on us like a cloud spreading away to an indeterminate edge, always just out of reach. It is a stunningly engaging, absorbing piece.

And yet, is there more to sculpture than the immaculate presentation of a particular effect, be it the jolly distorting-mirror of the funfair, or the purer sensory indulgence of diving in the imagination into the deepest, darkest velvet bag? Is effect of itself significant, profound? Or is it the portentousness of sheer size and presentation that makes us feel it should be so, and to that extent resistible?

The exquisite, abstract glass sculpture of Bernard Dejonghe, now at Galerie Besson, tells us at once that size is not the point. Here are domestic bowl-like lumps of solid glass that, with their delicately crinkled surfaces and interior abutments, seem ineffably fragile. More to the point, they too are contradictory, seeming so solid yet so immaterial, the space within so clear, so inviting, yet frozen forever within the block. They play not quite the same, but similar, games to the refined emptiness of Kapoor. Small as they are, they are just as ambiguous and just as intriguing and persuasive, and as beautiful. The trick, as Kapoor himself suggests, is in having nothing particular to say.

Anish Kapoor, Hayward Gallery, London SE1 until June 14; sponsored by Edwin C. Cohen and the Observer, supported by Habitat and the Henry Moore Foundation. Bernard Dejonghe: ceramics and glass; Galerie Besson, 15 Royal Arcade, Old Bond Street, London W1 until June 26.



Ambiguous: 'Turning the World Inside Out', 1995, by Anish Kapoor

Enthralling: Susan Brown, Paul Popplewell and Susan Engel in Robert Holman's new play

Alastair Muir

Characters in charge of the plot

THEATRE

ALASTAIR MACAULAY

Bad Weather
Royal Shakespeare Company

The acting in Robert Holman's new play for the Royal Shakespeare Company, *Bad Weather*, is beautiful, and the six roles are wonderful. True, the plot gets disappointingly straggly in the second half. But you always want to know what will happen next, and almost always it takes you by surprise. As for the dialogue, its rhythm is constantly fine, and there were only two lines when I knew the reply that a character would make before he or she did.

You really come to know Holman's characters – indeed, to care for them – but the spell of his play is that he keeps opening them up, showing you this or that new facet, enlarging their inner lives. It seems as if the plot progresses in its peculiar way because the characters have so great a reality in Holman's mind that he has let them shape the play's events. This is a rare gift in playwrights; I wish I had encountered Holman's work before. Now in his mid-40s, he has had plays of his produced since 1972; he wrote two plays for the RSC in the 1980s (*Today* and *Across Oka*).

The play starts in Middlesborough. Jamie, a 19-year-old, gets imprisoned for grievous bodily harm, though he has not committed it. His friend Luke, who has, is not even called to court. Luke's sister Rhona is pregnant with Jamie's child. Jamie's mother Kay, distraught by the verdict, is befriended by Noel, the one juror who found Jamie innocent; they soon go to bed together. When it emerges that Kay was once the heiress to a French château and vineyard, Noel and Rhona write to her former nanny and friend Agnès, who quickly comes over to help. This much emerges in the first quarter of the play. But already the characters have become multi-dimensional in the way they react to each other.

Luke, for example, is irresponsible and spontaneous; but suddenly you see in him a charm, a brightness, a complexity, and finally a confusion that are captivating. You see him captivate Agnès; and then you realise the affection there has always been between him and Kay. So much so that Kay's relationship with her son, so much more guarded, becomes tinged by guilt. Kay has a refinement of spirit that impresses everybody; and Agnès an intelligent authority that seduces most of them. Rhona keeps up an amusingly tough aggressive/defensive armour of talk, and only occasionally lets her few hopes and sorrows show. Jamie, in jail, is so defensive that he contradicts himself every which way. In Act Two, Agnès takes everyone except Jamie to France, where there is a picnic scene of bewitching charm: an idyll in which the play's tensions are briefly relaxed.

Holman has written wonderfully for actors and they return the compliment

At The Other Place, you can sit in the front row, sometimes close enough to touch the actors. The performances by Susan Brown, as Kay, and Susan Engel, as Agnès, are particularly enthralling: their stillnesses, the eloquence of their least inflections, the moment-by-moment fluctuation of their response to other characters all deepen the play marvellously. Paul Popplewell is beguiling in the way he catches Luke's energy and freshness, and his sudden highs and lows; Ryan Pope, by contrast, catches the pathos of Jamie's self-justifying denials, his meandering between hostility and tenderness, between bravado and defeatism. Barry Stanton as Noel and Emma Handy as Rhona also give us completely rounded characterisations.

I wish, for his play's sake, that Holman had moved it to a more brisk and more gripping conclusion (or conclusions). But he has written wonderfully for actors: and, as directed by Steven Pimlott, the RSC actors handsomely return the compliment.

In RSC repertory at The Other Place, Stratford-upon-Avon.

OPERA THE KIROV IN NEW YORK

Rich Russian repertory reaps its rewards

The visit of the Kirov/Maryinsky Opera company of St Petersburg to the Metropolitan in New York lasted just over a fortnight, but the impression left by this event – rightly billed as a "festival" – will not soon be forgotten. The massive invasion, which brought not only singers, orchestra and chorus but also four elaborate productions complete with stagehands, brilliantly concluded the New York opera season. The Kirov's artistic and general director Valery Gergiev was not an unknown quantity in New York; he has conducted *Otello*, *Boris* and *The Queen of Spades* at the Met, where he has also been appointed principal guest conductor.

But while Gergiev has been a splendid, welcome guest, he is obviously more dazzling when supported by the company he has shaped into an international operatic force, the flagship of post-Soviet Russian culture. At an inaugural concert in New York, during which a number of non-Russian arias were sumptuously performed, the Kirov showed that it can range comfortably through the entire repertory, which, on its home ground, comprises Mozart, Wagner, Verdi, Bizet, Strauss. But having asserted this versatility, during the festival proper the Kirov focused on four productions, all Russian. Of these, only one, *Prince Igor*, is regularly performed in the US. The other three could rightly be considered rarities – Prokofiev's *Betrothal in a Monastery*, Tchaikovsky's *Mazeppa* and Glinka's *Ruslan and Lyudmila* – yet for all the New York audience's well-known reluctance to sample unfamiliar fare, performances were sold out and received with clamorous enthusiasm.

Perhaps the most arresting aspect of the Kirov was its superb ensemble; casts never seemed a mere assembly of singers brought together for a few evenings; each production seemed to have grown spontaneously from within all its participants; it was never something imposed on them from outside. The appearance of a dancer, or even a large sector of the ballet, was not an alien intrusion, but a natural development. In the past, it was almost obligatory to dismiss Soviet stagings as reactionary, coarse, gaudy; these productions were visually attractive, and the leading singers were handled, as was the chorus and corps de ballet, with tact and insight. To be sure, the company has its stars – Gergiev himself at their head – but it is not unusual to see an interpreter in a major role one night and in a lesser one the following night.

The most arresting aspect of the Kirov was its superb ensemble . . . a truly coherent opera 'company'

Productions counted for more than individual performances. The surprise of the festival was surely *Betrothal in a Monastery*. Presented a few years ago in a student production at a New York conservatory, the piece was generally dismissed as long-winded and unhumorous; now the Kirov illustrated the pointed wit with punctuating moments of lyrical tenderness and the skewed, irresistible dance rhythms. Similarly, *Mazeppa* revealed a different and powerful Tchaikovsky, narrating a grand-scale, heroic story, with a full-scale battle scene as its centre (the brass section of the Kirov orchestra, in 19th century uniform, was proudly deployed on stage). The performance was also an occasion for the baritone Nikolai Putilin to show off his big, warm, multi-hued voice, and for the bass Vladimir Vaneev (a widely-admired Boris) to demonstrate his talent as an actor in the moving prison scene.

For my performance of *Ruslan and Lyudmila*, Gergiev ceded the baton to Alexander Titov who, after an excessively hectic overture, went on to conduct a performance as impeccable and supple as those of Gergiev himself. Glinka's opera, a milestone in Russian musical history, is often called "Italianate", though it is far from the tuneful concision of mature Donizetti or the dramatic impetus of early Verdi (Glinka's contemporaries). But here, too, was an occasion to admire, besides the resounding chorus, the icy, innocent soprano of Olga Trifonova and two more of the Kirov's apparently limitless supply of fine basses: Mikhail Kit, who sang Lyudmila's father, and Fedor Kuznetsov, who was Farlaf, a rejected suitor.

The enduring rewards of the meteoric Kirov visit will be not only the acquaintance with a true, coherent opera "company", but also the introduction to a rich repertory, which we can only hope American houses will want to explore. If Gergiev does, after all, come more frequently to the Met, he will surely bring his favourite operas with him. Perhaps the Lincoln Center will eventually resound with Tchaikovsky's *The Maid of Orleans* or even the politically incorrect but heart-meltingly beautiful *Semyon Kotko* of Prokofiev.

William Weaver

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Tosca: by Puccini. New production by Nikolaus Lehnhoff with a cast including Bryn Terfel. The conductor is Riccardo Chailly; May 12, 15, 17

BARCELONA

EXHIBITION
Fundació Joan Miró
Tel: 34-3-329 1908
www.bcn.fjmiro.es
Private negatives, public fictions: 100 photographs from the collection of the Musée National d'Art Moderne in Paris. Includes works by Robert Doisneau, Dora Maar and Man Ray; to Jul 12

BERLIN

CONCERTS
Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Emmanuel Krivine in works by Beethoven and Tchaikovsky; May 17

BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
● Il Ritorno d'Ulisse: by Monteverdi. New production conducted by Philippe Pierlot in a staging by William Kentridge. With the Handspring Puppet Company; May 12, 13, 15, 16, 17
● L'Orfeo: by Monteverdi. New production conducted by René Jacobs and directed and choreographed by Trisha Brown, with designs by Roland Aeschlimann; May 13, 14, 15, 16, 17

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by Franz Welser-Möst in works by Brahms and Shostakovich; May 14, 15, 16

FLORENCE

OPERA
Maggio Musicale Fiorentino
Tel: 39-55-211158
www.maggiofiorentino.com
Le Comte Ory: by Rossini. New production conducted by Roberto Abbado in a staging by Lorenzo Mariani; ETI-Teatro della Pergola; May 15, 17

FRANKFURT

CONCERT
Frankfurt Oper
Tel: 49-69-21202
Budapest Festival Orchestra: conducted by Iván Fischer in works by Mahler and Bruckner. With mezzosoprano Doris Soffel; May 15

GLASGOW

OPERA
Scottish Opera, Theatre Royal
Tel: 44-141-332 9000
The Queen of Spades: by Tchaikovsky. Conducted by Richard Armstrong in a staging by Yannis Kokkos; May 12

HELSINKI

OPERA
Finnish National Opera
Tel: 358-9-4030 2211
The Magic Flute: by Mozart. New production by Swedish director Etienne Glaser, designed by Peter Tillberg. Conducted by Mikko Franck; May 16

HOUSTON

EXHIBITIONS
Museum of Fine Arts, the Menil Collection and the Contemporary Arts Museum
Tel: 1-713-639 7750
Robert Rauschenberg: The Previously seen at the Guggenheim, New York, this major retrospective spans the artist's 50 year career and includes some 400 works. The Menil Collection hosts works from the 1940s through the mid 1980s. The Contemporary Arts Museum presents important technological works, while the Museum of Fine Arts will show the most recent work; ends on Sunday

LAUSANNE

CONCERT
Théâtre de Beaulieu
Tel: 41-21-643 2211
Orchestre de la Suisse Romande: conducted by Ulf Schirmer in works by Carl Nielsen and Isang Yun. The programme is completed by Stravinsky's Rite of Spring; May 14

OPERA
Opéra de Lausanne, Théâtre Municipal
Tel: 41-21-310 1600
Il Matrimonio segreto: by Cimarosa. Conducted by Jonathan Darlington in a staging by Alain Marcel. Cast includes Alison Hagley; May 12

LISBON

CONCERTS
100 Days Festival, Expo '98
Madrid Symphony Orchestra: El Amor Brujo by Manuel de Falla; Main Auditorium, Centro Cultural de Belém; May 16, 17

DANCE
100 Days Festival, Expo '98
Pina Bausch: specially commissioned new work; Main Auditorium, Centro Cultural de Belém; May 12, 13

LONDON

CONCERTS
Royal Festival Hall
Tel: 44-171-960 4242
Barenboim Beethoven Cycle: series of six concerts, with Barenboim conducting the nine Symphonies and directing the five Piano Concertos from the keyboard. With the Staatskapelle Berlin and London Symphony Chorus; May 15, 16, 17

EXHIBITION
National Gallery
Tel: 44-171-839 3321
Masters of Light: Dutch Painting from Utrecht in the Golden Age. Brings together 74 works produced by painters working in the city of Utrecht in the first half of the 17th century; to Aug 2

MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
www.lascala.milano.it
Der Freischütz: by Weber. Conducted by Donald Runnicles in a staging by Pier'Alli, with a cast including Kim Begley and Nancy Gustafson; May 12, 14, 16

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Bavarian Radio Symphony Orchestra: conducted by Dmitrij Kitajenko in works by Prokofiev and Tchaikovsky; May 14, 15
● Westdeutsche Sinfonia Leverkusen: conducted by Dirk Joeres in works by Haydn, Mozart and Beethoven. With horn soloist Michael Thompson and violinist Jurai Cizmarovic; May 13

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920
The Midsummer Marriage: by Michael Tippett. Mark Elder conducts a production staged by Richard Jones, with a cast including Alison Hagley and Philip Langridge; May 15

NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
www.lincolncenter.org
● New York Philharmonic: conducted by Leonard Slatkin in works by Fine, Mozart and Dukas. With piano soloist Alicia de Larrocha; Avery Fisher Hall; May 12
● New York Philharmonic: conducted by James Conlon in works by Zelinsky, Rachmaninov and Liszt. With piano soloist Garrick Ohlsson; Avery Fisher Hall; May 14, 15

EXHIBITION
Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
When Silk Was Gold: Central Asian and Chinese Textiles. Featuring 64 precious textiles from the 8th to 15th centuries; ends on Sunday

PARIS

EXHIBITION
Musée d'Orsay
Tel: 33-1-4049 4814
Manet, Monet, and the Gare Saint-Lazare: places Manet's famous painting in a context provided by works by other artists and a group of related drawings, prints and photographs; ends on Sunday

STOCKHOLM

OPERA
Königlichen Oper
Tel: 46-8-248 240
Deutsche Oper: Tannhäser, by Wagner. Conducted by Jiri Kout in a staging by Götz Friedrich; May 12

TOKYO

CONCERTS
Tokyo Opera City Concert Hall
London Symphony Orchestra: conducted by Sir Colin Davis in works by Beethoven; May 17

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

COMMENT & ANALYSIS

MARTIN WOLF

Soft heart, soft head

It may be tempting to forgive and forget when it comes to highly indebted poor countries. But that can be a mistake

The road to hell is paved with good intentions. This I learnt when I worked at the World Bank on several east African countries between 1972 and 1974. What I saw there were governments – seduced by socialist ideology, encouraged by leftwing western advisers and supported by foreign aid – taking their first steps on the journey to catastrophe.

The *dirigiste* development path of sub-Saharan Africa is not the only explanation for the picture shown by the chart. But it does explain much of it. Countries that were particularly ill-suited to interventionist government embraced it with enthusiasm.

Now, leaders of the group of seven leading industrial countries who convene in Birmingham this weekend will be asked to tackle one of the consequences: the unpayable debt of the world's highly indebted poor countries (HIPC) – all but seven of which are African. They meet against the background of the "Jubilee 2000" campaign, embracing many charities and churches, against "debt slavery".

The question is how western leaders should respond. With caution, is the answer. Debt relief does have a role to play in improving the plight of the world's poorest countries. But it must not be exaggerated. The big challenge is not debt. It is performance – or rather lack of it. There is nothing wrong with going into debt and these countries are not poor because they are indebted. On the contrary, they are heavily indebted because they failed to use the capital inflows they received with even minimal efficiency; and they will remain just as poor, after relief, if they continue to waste money.

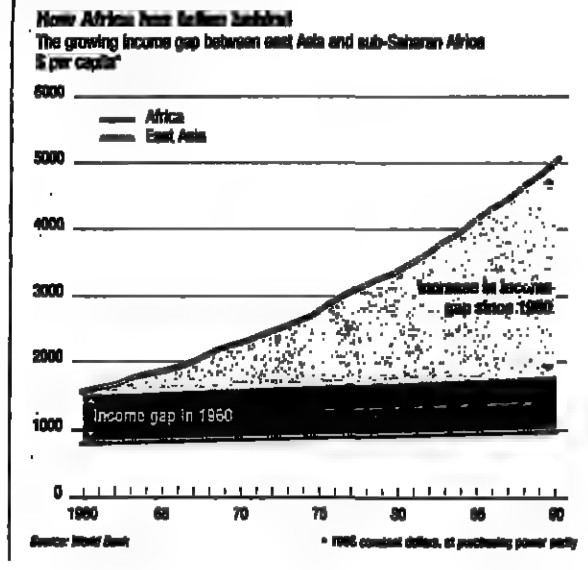
How can a civilised person advance such quibbles when, as Oxfam, the UK development charity, has argued, African governments transfer four times more in debt payments than they spend on health and education?

To understand how, one should start with the facts – and the "facts" being presented by Oxfam are grotesquely misleading. What matters is not the size of the debt stock or of the gross outflow on debt service, but whether the resources that are being transferred into a country exceed those being transferred out of it. If they do, the country is able to spend more than the value of its output – including on health and education, should its government wish.

The most direct measure of net flows is the current account, excluding interest payments and official transfers. As it happens, almost all heavily indebted poor countries ran large deficits in 1996 (that is, they were able to spend more than they produced). The World Bank notes, in addition, that overall net transfers to heavily indebted poor countries (even after payment of interest) have totalled around 7 per cent of gross domestic product over the past 15 years.* The argument that these countries have been impoverished by the need to transfer resources to their creditors is simply false.

If the highly indebted poor countries are, on balance, receiving resources from the rest of the world, what is the point of formal debt reduction? Five arguments can be advanced.

First, since many countries are paying less than they are supposed to pay, they face a reduced incentive to improve performance, since a part of the reward would accrue to creditors rather than to themselves. Second, debt reduction will reduce the bureaucratic effort involved in negotiations for new inflows or short-term rollovers of debt.



Third, the benefits of reduced debt service obligation belong to indebted countries, which should make it easier for them to plan and sell their own priorities.

Fourth, high formal debt obligations act as a disincentive to voluntary capital inflow and repatriation of flight capital, because of the fear of higher taxation in future.

Fifth, reduced outflows might not be matched by a corresponding reduction in inflows, in which case the net inflow would increase.

These points in favour of debt reduction have merit. Yet there are also objections. The most important is that debt relief gives the biggest reward to the countries that have wasted their money most completely. Why should, say, Zambia get relief and not Bangladesh?

The attempt to balance arguments in favour of debt relief with those against it has led to the HIPC debt initiative of the World Bank and the International Monetary Fund. It aims to cut the net present value of debt service obligations to "sustainable" levels. Sustainability is judged on a case-by-case basis, with debt-to-export ratios to be between 200 per cent and 250 per cent and a debt service ratio of 20 to 25 per cent.

Countries must show six years of good performance to be eligible for relief from the Paris Club of government creditors and from the multilateral agencies, such as the World Bank and IMF. So far, relief has been agreed for Bolivia, Burkina Faso, Guyana, Ivory Coast, Mozambique and Uganda, the net present value of all that relief being $3bn. Packages for Guinea-Bissau and Mali are under consideration, while 15 or 16 countries should, it is hoped, qualify for relief by 2000.

Yet this package has been subject to strong criticism. Opponents argue that the definition of sustainability is unrealistically tough, debt relief takes too long to arrive and performance requirements are far too strict.

Of these, only the first point has much merit. There is a good argument that, if debt relief is to be provided, it should be generous enough to ensure a country will not need it again. Creditors who made wasteful loans should also bear part of the cost. In addition, big enough rewards must go to good performers to reinforce their success, both in their own eyes and in those of their neighbours.

The other points have far less merit. Indeed the bigger permanent relief is going to be, the more important it is to give it only to countries with demonstrably good performance. Moreover, the only indication of performance is what has already been achieved, not what is promised. Words are cheap. Further, because countries can be shielded against the costs of their debt service obligations in the interim period, however prolonged, it is sensible to give the reward of relief only when sustained performance has been demonstrated. For these reasons, both the wait and the performance requirements are justified.

What the G7 leaders should learn from the campaigners in Birmingham is that a significant number of ordinary people care about the desperate plight of the world's poorest people. This is both impressive and justified. Unfortunately, having one's heart in the right place says little, or nothing, about the state of one's head.

The plight of the world's poorest people cannot be explained by the debt their countries owe. They were desperately poor before the money was borrowed; they remain poor, because they wasted the money; and even today they receive far more money than they pay out.

The role of permanent debt relief must be to provide a secure base for the long-term development of well-managed countries. Like all aid, it should be supplied selectively to countries with sound policies and a period of proven performance. In their presence, generous debt relief should be useful. In their absence, it will be just another case of good intentions wasted.

**World Bank, Global Development Finance. 1997, Volume I*

Martin.Wolf@FT.com

LETTERS TO THE EDITOR

Vindication for an approach to business that has real value

From Professor Marc Bertoneche.

Sir, Congratulations for Paul Abrahams' article, "Japan's ray of hope" (May 6). It is very reassuring to see that what we have been teaching for years and years, is not simply, as Samuel Brittan put it one day, "an accidental quirk of Anglo-Saxon corporate law" (Economic Viewpoint: "Silly slogans of stakeholders", September 7 1995), but has some universal value.

In the past, Japan has often been presented as The Model and a living proof of how wrong we were in the western world. It is nice to hear that capital allocation, cost and return on capital are not just topics for class discussions in our business schools, that share option schemes are not just the invention of selfish and greedy executives, that share buy-back programmes are not the signal of a lack of confidence in the future and that decent returns on equity in well-focused and value-creating businesses are more important than capacity increases, market share and sales growth in inefficient, underperforming and value destroying organisations.

The message is clear: investors matter everywhere.

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Investment performance needs standards

From Mr I. Seth.

Sir, In addition to those trusted statistics supplied by fund managers as mentioned by Barry Riley ("Trusted stats ... one day", May 6), such fund managers have also been known to market their performance statistics against whichever universe looks worst out of a selection of performance agencies in an effort to move up a quartile. Despite this, it is rarely asked how many participants the sample contained. Equally astounding is when fund managers have been known to compare total portfolio returns of growth funds against the relevant benchmark net of dividends, something that over long periods can show large differences compared to its equivalent gross benchmark.

While global investment performance standards are developed, the industry would be well served if fund managers agreed the type of data to be forwarded to clients on a quarterly basis, for example. Initial agreements may include whether to have performance data externally audited, outlining whether returns are net or gross of fees and therefore stating a comparable benchmark. They might also mention the type of universe to be used, together with the sample size, and whether these include complete portfolios (which include cash) as opposed to carve-outs (which exclude cash).

While the industry does not want to make it difficult for fund managers to build up assets under management, it is important to have standards that are more transferable so clients can make informed decisions and thus give business to the managers who achieve it.

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Veil of secrecy on arms deals must be lifted

From Ms Jessica Woodroffe.

Sir, The furore surrounding the arms to Sierra Leone affair has mistakenly focused on the alleged mismanagement of officials and ministers ("African muddle and humbug", May 11). The implication is that if a few heads roll all will be well again. But he is still the policies that need replacing – not officials or ministers. The veil of secrecy that surrounds the arms trade needs ripping down to let in the full light of democratic scrutiny and control. And the criteria governing arms sales need to be made explicit, leaving no room for "nod and a wink" interpretations.

Until now, Robin Cook, the foreign secretary, has shied away from such a thorough overhaul – and that is what MPs should ask about in today's debate. For without such fundamental changes, Britain's arms exports will inevitably continue throwing up scandal after scandal – whoever is filling or reading those red boxes.

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BOOK REVIEW RICHARD LAMBERT

The first monopolist

TITAN
The Life of John D. Rockefeller, Sr
By Ron Chernow
Random House
$30, 774 pages

Free markets, if left to their own devices, can wind up terribly unfree, and government intervention is sometimes necessary to ensure unfettered competition. This must be the text for the US Justice Department as it girds itself to launch antitrust charges against Microsoft. There is no better place to come to grips with the issues than in Ron Chernow's stunning new biography of John D. Rockefeller Sr, the man who built up Standard Oil, the archetypical monopoly company that was broken up by the trustbusters.

The parallels between Rockefeller and Microsoft's Bill Gates are striking. Both men stumbled on new industries at a moment when they were about to transform the economic life of America. Neither were great innovators, but both understood the importance of marketing and distribution.

Both shot to prominence at an early age. Rockefeller, whose background was very much more humble, was one of the richest men in America by the time he reached 40. He was never worth as much as Mr Gates is today: his net worth at its peak was something over $13bn (£8bn) in today's dollars, compared with around $50bn for Mr Gates. But the US economy was far smaller than it is today: as a financial force in the land, he was much the more powerful figure. And he gave a lot more of his money away than Mr Gates has done so far.

His qualities as a businessman would have been instantly recognisable in Silicon Valley or Seattle. The picture painted by Mr Chernow is of a man with visionary leadership, courageous persistence and an ability to think strategically. He combined these with a lust for domination, a ruthless single-mindedness, and a total contempt for lesser mortals who stood in his way.

Rockefeller inspired great loyalty among his workers, whom he encouraged to contact him directly with ideas and complaints. If e-mail had existed, he would have been addicted. He also urged them to take stock in the company; top people had to depend entirely on stock appreciation and dividends since they received no salary. As they all became rich, they converted Standard Oil into a crusade.

He had a great way with bankers. He was always frank and he repaid loans punctually. Other outsiders had a much rougher time. Rockefeller made a fetish of secrecy flavoured with paranoia, and he treated his critics as imbeciles – in his words "governed by their narrow jealousies and unwarranted prejudices".

Mr Gates has much to learn from Rockefeller, and there are signs that he may be doing just that. Rockefeller came late in life to understand the value of public relations: since the Justice Department started to turn up the heat, Mr Gates has been developing a newer, softer image.

He has taken up golf, which became Rockefeller's passion. He has hired squads of lobbyists. But he is still not in the same league as Rockefeller when it comes to giving testimony in front of hostile Washington committees. The old boy was a master of obfuscation, a virtuoso of evasive testimony.


The parallels between Rockefeller (left) and Gates are striking

Mr Gates also has a long way to go as a philanthropist. Rockefeller believed he had been favoured by God to make enormous wealth in order to support good causes. During his first year at work at the age of 16, this penniless clerk gave 6 per cent of his wages to charity.

The case against Standard Oil was much stronger than any that seems likely to be brought against Microsoft. At the peak of its influence in the 1890s, it not only marketed 84 per cent of all petroleum products sold in America (a market share comparable to Microsoft's in personal-computer software). It also pumped a third of its *crude oil (something for which there is no analogy for Microsoft).* Unlike in computing today, there was effectively no competition in the whole of Standard Oil's industry, and there was little risk of some new technology emerging to undermine its position.

It is true that by the time the antitrust cases were building up against it in the early 1900s, this position was being eroded. The Royal Dutch/Shell partnership was a new force in the world while at home popular antagonism kept the company out of the great new finds in Texas. But by that time it had already enjoyed around 30 years of total dominance, and it was powerful enough when it was broken up to give birth to such giants of today as Exxon, Mobil and Chevron.

Moreover there was much more evidence that it had abused its position than is the case with Microsoft. Its dealings with the railroads were one example. Standard Oil would use its market strength to get substantial and sometimes illegal rebates, along with clawbacks from barrels shipped by rivals and comprehensive information about all oil movements. Mr Chernow describes the most notorious of these schemes as an astonishing piece of knavery, grand-scale collusion such as American industry had never witnessed.

Predatory pricing became *a matter of routine. Products* were sold at or below cost wherever competition appeared, and compensated for by price increases in less competitive locales.

Unimaginably wealthy, widely hated, totally unrepentant: Standard Oil was the ideal target for a populist president in the shape of Teddy Roosevelt. For a time Rockefeller became more or less a fugitive, hiding from writ servers and possible assassins.

Microsoft is regarded as the evil empire by its enemies in the software world, and Mr Gates himself is subjected to much personal abuse. But there is no mood across America as a whole to see him humbled. On the contrary, he is widely admired for his achievements. Microsoft is associated with the success of the US economy, and its critics are accused of trying to achieve in the courtroom what they have failed to pull off in the marketplace.

Public opinion played a central role in the Standard Oil case. The same will be true with Microsoft. If it is to succeed, the Justice Department will need to use laser beams rather than nuclear bombs. It will have to show that the public is threatened by the company's monopoly in operating systems, and it will have to find remedies that allow the market to work better than it does today.

In the meantime, Mr Chernow – whose other books include The House of Morgan and The Warburgs – has confirmed his reputation as a great business historian.

FINANCIAL TIMES
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A stranger in Euroland

The financial markets' broad welcome last week to the birth of the euro has once again confounded Britain's Euro-pessimists – and sharpened the dilemma faced by the UK government.

There is now a wide expectation that economic and monetary union will create a strong and stable currency to rival the dollar. The agreement by the first 11 countries to lock their exchange rates from 1999 prompted renewed speculation in the UK about what this would mean for those excluded from the club. It could be that big swings in sterling would make belonging to Emu look more attractive to voters, especially if Britain seemed to be losing influence as an off-shore island of Europe.

Yet Tony Blair cannot rely on such a change of mood, even with the help of big business. If the prime minister seriously wants to take Britain into Emu early in the next parliament, he will need to give a much stronger political lead. He may want to to avoid committing himself fully until he is sure he can win a Yes vote in a referendum. But delay creates unnecessary risks in the markets.

To be sure, political utterances alone are unlikely to move sterling in the desired direction. But the history of Emu shows that strong political commitment can help market convergence, when combined with tough fiscal and monetary policies such as those now being pursued in the UK. The awkward fact that the UK economic cycle is out of phase with those of France and Germany cannot be talked away, of course. Nor can UK short-term interest rates fall very much until the danger of domestic inflation has receded. But a strong political lead would at least reduce any confusion in the markets which could cause sterling to overshoot its equilibrium level – in either direction.

Sterling will be much the most important external currency for the Emu block, accounting for 20 per cent of its trade compared with the dollar's 15 per cent and the yen's 7 per cent. Stability between sterling and the euro will thus be almost as important to continental European countries as it is to the UK. Desire for stability also underlies the business world's strong desire for early entry (at the appropriate rate). It is now reinforced by a conviction that the euro will promote a low-inflation business environment and so confer significant competitive advantages.

Against this background, the statement on Emu by Gordon Brown, the chancellor, last October looks increasingly feeble. As a matter of principle, he said, the UK should join. "If in the end a single currency is successful and the economic case is clear and unambiguous".

Strictly interpreted, that condition could never be fulfilled. Even the strongest advocates of Emu accept that in some respects it represents a leap of faith. But that leap is now being made, and it is as irreversible as any treaty can make it.

The choice for Britain has thus jumped into sharper focus: either it prepares credibly to take its place within the new grouping, or it will face a gradual loss of political influence in Europe and in the world, with perhaps significant economic penalties in the medium term.

Joining will not be easy, even with a strong political impetus, since at least two years of currency stability against the euro will be needed. If Mr Blair starts a vigorous public campaign this year, he could take advantage of the first signs of economic convergence and lead a shift in popular opinion. If he hedges his bets for too long he may lose the game and condemn Britain to a protracted stay on the periphery.

Bibi's gauntlet

Benjamin Netanyahu, the Israeli prime minister, has flung down a gauntlet for the Clinton administration. He has rejected a modest US proposal to rebuild the peace process with the Palestinians at a summit which was to have taken place in Washington yesterday.

American diplomacy had – at Mr Netanyahu's request – beaten down Palestinians' expectations on how much occupied land they would get back before talks on a final settlement which Israel professes to want. After last week's talks in London, Washington agreed the Israeli leader should have time to consult his cabinet.

The US proposal, however, was not even put on the agenda of last Sunday's cabinet meeting. After this Mr Netanyahu's office let it be known the next likely gap in his diary is May 28, even though he is due in the US this week for meetings with American Jewish organisations.

As Israel's first directly elected prime minister, Mr Netanyahu has more power over extremists in his cabinet than he acknowledges. The Hebron deal he signed 16 months ago, committing Israel to three further "redeployments" by mid-1998, went through cabinet by 11 votes to 7 and the Knesset by 87 to 17. The real problem is that, through the influence of the pro-Israel lobby, the Israeli prime minister is backed by four-fifths of both houses of the US Congress – and is using this to checkmate the White House.

There is too much at stake for the administration to let him keep playing this game. The US must now spell out, as it has threatened to do, that it is the Netanyahu government which is sabotaging the chance of making peace and risking a return to conflict in the Middle East.

Nuclear fall-out

India's nuclear test yesterday is dangerous and foolish in equal proportion. It heightens security tensions with its neighbour Pakistan and in the broader Asian region. And it is the latest in a series of developments that raise disturbing questions about the new coalition government of Atal Behari Vajpayee.

Mr Vajpayee's Bharatiya Janata party came to power promising to make India an official nuclear power, though once in office it appeared to backtrack on this intention. Last week his defence minister provoked a row with Beijing by stating that China, not Pakistan, was the real threat to India's security. Now the nuclear test marks an escalation that could get out of hand.

India's defenders will doubtless argue that India already had nuclear capability. Nothing has changed in practice except that it is being open about it. Pakistan itself raised the stakes by its recent testing of a long range missile.

Besides, assumptions have long been widespread in defence circles that India's main preoccupation is China, with which it shares a border and against which it fought a war in the 1960s. China's growing economic and military strength must leave India uncomfortable, especially since Beijing's close alliance with Burma gives it port facilities on the Indian Ocean.

But in recent years India's relations with China have improved and the idea that Beijing could have hostile intent now looks absurd. On the contrary, the main worry for the international community is that India has a new, inexperienced and weak coalition government, anxious to assert itself and promote its nationalist agenda. The government's real intentions have been obscured by conflicting policy signals, and it seems prepared to act with reckless abandon.

India's nuclear test must now move high up the agenda for the forthcoming Birmingham G7 summit. It is important that participants unite in deploring India's test in the strongest terms. It would be helpful if Russia, which still exercises some influence over India and will be represented at Birmingham, could help make sure the message is received. In the medium term, the US – which has neglected south Asia for too long – needs to make this region a more important focus of its foreign policy.

None of this will make much difference unless Mr Vajpayee can keep his unruly ministers under control. He professed himself keen to disown last week's outburst from his defence minister against China, but he cannot disown a nuclear test.

The genie is now out of the bottle. India should repair the damage by quickly signing the nuclear test-ban treaty, promising to make no further tests, and participating fully in efforts to combat proliferation. Failing that, it should be left in no doubt of the world's disapproval.

Trying to connect you

Richard Waters looks at the business implications – both national and international – of the $66bn merger of two of America's Baby Bell telephone companies

Not another one. Nowadays, mergers of $50bn or more seem to be two a penny. In this light, the planned $66bn (£39.5bn) union of SBC Communications and Ameritech appears a logical, and hardly surprising, extension of the breakneck consolidation that has engulfed some of America's biggest industries in the late 1990s.

But it is also the sort of deal that many American regulators and politicians were fervently hoping would not happen. And, once they ponder the implications of the merger of two of America's so called Baby Bell telephone operators other telecommunications companies – including Europe's biggest carriers – may well feel the same way.

The combination has been approaching with a certain inevitability. Since 1984, when the Justice Department succeeded in breaking up the national Bell telephone system – the big US telecoms carriers have existed in uneasy harmony. Like planets in the solar system, AT&T and the Baby Bells have remained in their orbits, held apart by the Federal courts. AT&T was left with a big, but fast-eroding, stake in the long-distance market, while seven Baby Bells – since reduced by merger to five – were each handed regional monopolies in the local business.

New competitors have certainly emerged over the past 15 years – most notably MCI Communications and WorldCom, which hope to complete their own $30bn merger later this year. But that has not been enough to disturb this celestial balance.

The alignment now faces its severest test. Unlike the more gradual deregulation in America's banking and electricity industries, the rules of engagement in the US telephone business changed overnight with the passage of the Telecommunications Act two years ago.

It took a decade of mergers in the banking industry to bring about the first union of two so-called "super-regionals" – the merger of NationsBank and BankAmerica, announced last month. That new giant would still only account for around 8 per cent of all retail banking deposits in the US. By contrast, an enlarged SBC would control some 35 per cent of all the country's access lines, the final link that ties homes and businesses into the wider telecoms networks.

By merging with Ameritech, SBC would bring back together under one roof three of the original seven Bells: SBC itself, which is based in Texas, Ameritech, in the Mid West and Pacific Telesis, which operates in California and which SBC is also buying. The acquisitive SBC has also snapped up an independent telephone operator in Connecticut called SNET, giving it a position in Bell Atlantic's backyard.

The consolidation in both banking and telecoms has been driven mainly by domestic considerations. But both also pose a long-term challenge outside the US. Between them, SBC and Ameritech had a combined market capitalisation yesterday of more than $120bn, around $25bn more than AT&T. With that sort of scale and a clean balance sheet, "they could buy pretty much anything they want overseas," says Anna-Maria Kovacs, a telecoms industry analyst at Janney Montgomery Scott in Boston.

The planned merger is already generating political heat on Capitol Hill, where anything that smacks of a recreation of the old AT&T is anathema. However, despite what promises to be a long and turbulent period of political and regulatory scrutiny, the odds seem to be in favour of the acquisition going through.

The large share of the US local calling markets that SBC would control is not sufficient on its own to halt the deal, according to US anti-trust experts. The local areas in which the five Bells operate are distinct markets: combining two separate regional monopolies would not necessarily be a regulatory problem.

For anti-trust officials, the test will be whether an acquisition of Ameritech reduces the prospective competition in each company's existing local markets, says Robert Crandall, a senior fellow at the Brooking Institution. Based on how the courts have acted in similar cases before, he adds, that would be a difficult case to make: there will still be a fair number of large telecoms companies after the merger, each of which would be just as capable as Ameritech of mounting an attack on SBC's core markets.

It was that consideration that persuaded the Justice Department and the Federal Communications Commissions to let through the most recent big local telecoms acquisition, the purchase of Nynex by Bell Atlantic last summer. Even though those two Bells were neighbours on the country's Eastern seaboard – as SBC and Ameritech are in the mid-West – their independence was not considered essential to competition in their areas.

One difference with yesterday's plan - and potentially an important consideration for the regulators - is the small degree of competition that has already broken out. Ameritech has already mounted an attack on SBC in St Louis, while SBC has moved on to Ameritech's home turf through its cellular business. The St Louis case, in particular, will give the FCC a "smoking gun" as it looks for evidence that the acquisition will reduce competition, says Ms Kovacs.

> **By merging with Ameritech, SBC would bring back together three of the original seven Bells**

This may provide the FCC and Justice Department with enough leverage to make SBC open its local exchanges to greater competition. The two agencies forced concessions from Bell Atlantic and Nynex before their merger went ahead, for instance by imposing tougher performance standards on them when it comes to renting their switches and other facilities to competitors.

This may not be enough to level the playing field, though. "They will have 60m phone lines into the homes and businesses of America," says Mark Bruneau, head of telecoms consulting at Renaissance Worldwide. "That's a very powerful position to be in." Even with the development of ways of circumventing the Bells' local access lines, for instance through cable television lines or wireless services, that entrenched position will be leave them in an unassailable position over the next decade, he adds.

Proponents of greater competition were also quick to note yesterday that Edward Whitacre, chairman of SBC, has been the most aggressive of the Bell chairmen in using the courts to defend his home turf. While Ameritech has traditionally taken a conciliatory stance, hoping that its willingness to lower barriers to its local territory would eventually win it regulatory approval to move into long-distance calls, SBC has dug in its heels, says Mr Crandall. It was SBC, for instance, that challenged the constitutionality of the FCC's attempts to implement the Telecom Act, a stance that has not won Mr Whitacre any friends in the Federal agency.

There was a certain irony, then, in the SBC chairman's efforts yesterday to paint himself as the friend of competition. By combining their resources, the two companies would launch the first all-out attack on the local markets nationally with a push into 30 large cities outside their home areas, Mr Whitacre said.

The two companies did not provide any numbers or timetables to back up this claim. However, if they are serious, it is likely to be costly: AT&T spent $4bn in a failed effort to break into local markets in the first year and a half after the Act was passed, before abandoning that plan. Its failure prompted it to try to combine with SBC a year ago - a vertical integration of dominant local and long-distance carriers that the FCC deemed unacceptable - and eventually to buy a smaller local carrier, Teleport.

For their part, SBC and Ameritech claim that a national attack on the $100bn local calling market is easier to mount that this experience suggests. According to Dick Notebaert, chairman of Ameritech, AT&T and other long-distance carriers have not driven harder into local markets because success would have hasten the day when the Bells were allowed into the long-distance business - one of the stipulations of the Act.

All of this will raise the pressure on AT&T - as well as other US and, eventually, foreign carriers. Besides its prospective 60m access lines, SBC has the luxury of inhabiting the most profitable part of the US telecoms landscape. The profit margin on local calls is still double that on long-distance connections, and there are few signs yet of the ferocious price competition that has made AT&T's market such an uncomfortable place.

That powerful home base could eventually serve as a springboard on to the world stage. Both local carriers are already among the biggest investors in telephone companies outside their home market, with Ameritech concentrating its firepower on Europe and SBC focusing on Latin America.

Both companies have largely followed a portfolio investment strategy up to now, assembling a network of stakes in other carriers around the world and often assuming a degree of management control over their investments. That approach would change after a merger, says Mr Notebaert: the merged companies' international affiliates could begin to link their separate networks, allowing them both to originate and terminate calls in their own markets - especially in Europe.

That would mean overlaying a new international strategy over what has so far been an opportunistic series of foreign investments. It would also expose gaps in the international footprint of the two companies, such as the UK, where neither has a presence, says Ms Kovacs.

However, Mr Whitacre would certainly have the financial muscle to pursue his global ambitions. If he succeeds in pulling off the acquisition of Ameritech, the age of the international supercarrier would move a big step closer.

OBSERVER

Car club crisis

Will Chrysler, the smallest of Detroit's "Big Three" carmakers and subject of the world's biggest industrial merger deal, be blackballed from the US motor industry's most important club?

The company sits alongside General Motors and Ford as the American Automobile Manufacturers' Association, a Washington-based industry lobby group.

There used to be something called the Motor Vehicle Manufacturers' Association, but in 1992 the Big Three ejected Honda and Volvo and reformed themselves as the AAMA.

Miffed, the other carmakers – principally Japanese transplants but now including BMW and Mercedes-Benz – formed the American International Automobile Manufacturers' Association, roping in all car makers doing business in the US.

With DaimlerChrysler to be incorporated in Germany, it should have no more right to AAMA membership than any other foreign brand. Chrysler and the AAMA are keeping mum while a scramble goes on behind the scenes to find a face-saving solution.

Not only would kicking Chrysler out look bad but it would also dent the AAMA's formidable funding: it spent $34m in 1996, against $6.7m for the 17 members of the IAMA.

It would be galling indeed for the AAMA if its exclusive rules handed the industry lobbying initiative to the rival organisation.

Full stretch

A little slip of the hand can do a lot of damage to a political career. Just ask Antonio Kandir, the former Brazilian planning minister who's still a leading figure in the government's economic team.

The government's efforts to drum up support for the social security reform bill have been increasingly frantic, especially since a carefully-planned series of votes had to be abandoned a couple of weeks back when MPs decided not to risk turning up to vote in case it made them late for an important date in front of the television to watch a football match against Argentina.

The latest attempt to push the package through hit the rocks when the first important opposition amendment was carried by one vote. Government whips weren't best pleased when it emerged that Kandir had abstained.

Not that he meant to – voting in Brazil's parliament involves more than sticking your hand in the air. MPs can vote at any one of the 500 or so desks in the chamber: they key in a code number on an electronic widget under the desk, then reach further under the desk to press one of three buttons – yes, no or abstain. It is hard to see the buttons, and Kandir realised his mistake too late.

The last laugh could be with the government. The amendment sought to remove the minimum retirement age from the bill, but government lawyers say it was so badly drafted that it sets a higher age than the government had intended. Kandir may not be looking too clever, but his slip may not be so expensive after all.

Balancing act

The G-15 group of developing countries, which began its three-day annual summit in Cairo yesterday, looks a bit like an Amnesty International hit list, though that didn't stop the draft final *communiqué* calling for a "balanced approach in addressing all human rights".

Maybe Nigeria is planning some sort of balance in the firing squad it picks to execute the latest bunch of opponents of the Abacha dictatorship, and perhaps Indonesia will be more balanced in its illegal occupation of East Timor.

Many other G-15 members have little to boast of in the human rights field, such as Daniel Arap Moi, the victor in Kenya's recent election, which turned into a festival of government-sponsored thuggery.

Then there is Algeria, with its repressive response to Islamist violence; Brazil, with its death squads and attacks on rainforest Indian communities, and Peru, Mexico, Senegal and Venezuela, where there are persistent reports of torture.

Compared with some of its guests, Egypt, with a mere 30,000 Islamist political prisoners, seems a haven of enlightenment, as does Malaysia, where democracy still has some way to go.

Still, India, Argentina and Jamaica are also represented in Cairo: maybe that's what the summit means by "balance".

No apologies

One word was missing – almost – from "Chainsaw" Al Dunlap's two-hour teleconference to investors yesterday: "Sorry".

America's renowned corporate turn-around expert, now the chief executive of Sunbeam, had to explain to investors how the manufacturing group – it makes barbecues, camping gas stoves, sleeping bags, coffee makers and bathroom scales among other things – lost $7.8m during the first quarter while he was busily negotiating three acquisitions. Apparently it was due in large part to "stupid" deals with retailers done while his back was turned.

Dunlap did use the S-word once, but it wasn't exactly an apology. Asked whether he would give back his bonus and work for a dollar this year, he said he would do no such thing: "I'm sorry if you don't like that, but it's your problem, not our problem or the shareholders' problem."

Shareholders do have a problem, however, as the stock has undergone its own turnaround – the price is half what it was at the beginning of March.

The Financial Times

100 years ago

New York City's Heavy Debt
The City of New York, it seems, has outrun the law. According to Comptroller Coler, who has been investigating the financial position, the constitutional debt limit has been exceeded by over $50,000,000, or more than double the amount it was thought to be at first. This will be an unpleasant revelation to New Yorkers. The Comptroller holds, in accordance with the opinion of the Corporation counsel, that "all contracts entered into by the City, subsequent to the date when the constitutional limit of indebtedness was exceeded, must be absolutely void." He has ordered that buildings and other public works must be abandoned in a state of incompletion.

50 years ago

Norway Airline Troubles
Oslo, May 11. It is reported that the Government will in the near future invite Parliament to grant a State guarantee for 50 million kroner for a bank loan to Norwegian Airlines. The economic position of the company is so serious that continued co-operation with Swedish and Danish airlines, and maintenance of the present administration, are impossible without the loan.

FINANCIAL TIMES
TUESDAY MAY 12 1998

THE LEX COLUMN

Wedding bells

Size does matter, if you ask Ed Whitacre. He is the man trying to turn SBC Communications, which he heads, into the Godzilla of the telecommunications industry. If SBC is allowed to gobble up Ameritech for $57bn in stock, Mr Whitacre will have reunited three of the seven Baby Bells and created a monster with revenues approaching – and a market value far surpassing – AT&T's.

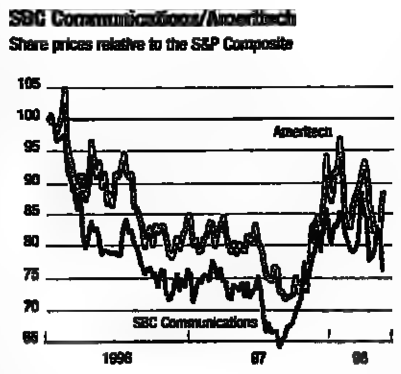
But Mr Whitacre may be overreaching himself. For a start, SBC appears to be paying too much. Ameritech's 9 per cent long-term growth rate is one of the slowest of the Bells, while SBC's 12 per cent is the fastest. And forecast synergies of $2.5bn by 2002 look modest given the size of the two companies. Yet SBC is paying a hefty control premium, equating to 9.6 times earning before interest, tax and depreciation – compared with a sector average of just over 7.

More seriously, SBC's bid may well be blocked. If the regulators wave it through, the two remaining smaller Bells, US West and BellSouth, will surely lose their independence too – hardly what Congress had in mind.

SBC is dangling a carrot by promising to offer local services in 30 US cities outside its territory if the merger is allowed.

That should fool nobody: joining two regional monopolies does nothing to increase competition. Nor, at a time when technology is evolving so rapidly, does size guarantee success. Like any big lizard, SBC may end up very large but too slow.

SBC Communications/Ameritech
Share prices relative to the S&P Composite



Source: Datastream/ICV

DuPont

DuPont is a belated convert to the idea of focus. The thought that oil, chemicals and pharmaceuticals do not necessarily mix had struck everybody else within the industry as obvious for years. It is no wonder, then, that the chemical group's decision to float off its Conoco oil subsidiary was greeted with a near-10 per cent leap in the shares yesterday.

With revenues of $22bn and forecast net earnings of $1bn this year, Conoco should be worth around $15bn-$20bn on a typical energy sector multiple. The final valuation depends on how much debt DuPont loads it up with. And DuPont is only floating a 20 per cent stake at first. Either way, however, this will give it plenty of firepower to expand further in life sciences, where growth rates are higher and capital requirements lower.

And, as a recent convert, it is to be hoped that DuPont will be all the more zealous. As Imperial Chemical Industries, Monsanto and countless others have shown, basic chemicals and life sciences do not need to be kept together either. The Conoco demerger should be just a first step.

Anglovaal

Rugby and racial politics may still grab the headlines, but they cannot disguise the increasingly radical reshaping of corporate South Africa. Nothing better captures this than yesterday's announcement from Anglovaal that the Hersov and Menell families will relinquish control. Moreover, as part of a wider restructuring, Anglovaal is turning its back on the mining house structure that formed the backbone of South Africa's industrial development.

This is nothing less than a frontal assault on the two dominant features of the country's corporate structure: the huge concentration of control in the hands of a small group of families, and the dominance of conglomerate structures.

The catalyst for change was a disastrous 75 per cent slump in the share price over the past two years, before the recent bounce.

Ironically, the control structure itself was not the cause. Investors had happily tolerated its eccentricities when times were good. That tolerance quickly faded when profits slumped – the result of falling commodity prices and savage competition on the industrial side when tariff barriers came down.

But the *Zeitgeist* was also a factor. Local politicians and international investors alike are hostile to control and industrial structures which belong to South Africa's past. So even if profits recovered, these companies would probably still attract discount ratings.

Most of South Africa's conglomerates have started to address the issue of structure. But until yesterday's initiative, control remained sacrosanct. Anglovaal deserves credit for being the first to grasp this nettle, albeit under duress. If the market signals its approval, it is a fair bet it will not be the last.

Courtaulds

Akzo Nobel's bid for Courtaulds at 450p a share was finely pitched. It was not cheap, but it did have the benefit of snapping up a valuable coatings business without the vulgar business of a bid battle. Now that considerable plus could slip from Akzo's grasp if a rival bid does indeed materialise.

Akzo will hope the approach signalled yesterday unravels. It may yet be lucky. A single bid from two companies, each keen to maximise its advantage, will not be straightforward to structure. But PPG's incentive to keep Courtaulds out of Akzo's hands may be a powerful one.

The implications for Akzo are grim. At 450p a share, the deal was earnings enhancing in its first year. At 500p, it probably becomes mildly dilutive. Meanwhile the return on the investment at the higher level would be a mere 5.6 per cent in the first year and 6.4 per cent in the second. That would be below Akzo's cost of capital and well below the UK cost of capital of 9 to 10 per cent.

At 450p a share, the deal's industrial logic spoke for itself, and Akzo needed do little to convince the market that it would also make sense financially. If it does have to fight a bid, it will have to start quantifying the synergies it hopes to gain. This may be uncomfortable territory. Arguing its case on strategic merit alone will not be enough.

Proud minister watches birth of the euro coin

By Robert Graham in Pessac

Europe's new baby is perfectly round, weighs in at 7.5 grammes and is "beautiful", according to Dominique Strauss-Kahn, the French finance minister.

His comment, typical of any proud father, was about the first euro coin, minted yesterday near Bordeaux, after he had inaugurated the world's greatest venture in coinage.

Between now and the end of 2001 the 11 European Union countries in the euro-zone will produce 70bn coins in eight denominations. European economic and monetary union begins on January 1 1999, but the new coins and notes will not come into circulation until 2002.

The exercise brings with it a wealth of security problems. Wary officials yesterday checked on straying visitors to ensure not a single coin left the building.

"It's a huge security operation," said Maurice Mano, one of the managers of this modern mint in south-west France. "The coins are not going into use until 2002 and we have to ensure against counterfeiting."

The German-made presses will be operating flat out on two shifts to produce France's quota of 7.5bn coins by the end of 2001, turning out 12m pieces a day.

"By the end of the month the last of the francs will be minted, although there still may be some special orders from the Bank of France," said Mr Mano, watching bright copper centimes pouring into a tray, which can hold over 3,000 pieces.

A workman checks a coin with a magnifying glass. "It's good and there won't be many more of these," he says nostalgically. The franc dates back to a 24-carat gold coin minted in 1360, depicting a king on horse-back, lance in hand and adorned with a fleur-de-lys.

The new euro coinage will have a standard face but each nation will have its own design on the reverse. The French euro bears an image of a tree, symbolising "life, nature, unity, growth and freedom", according to its 42-year-old designer Joaquim Jimenez.

The French mint is some six months ahead of the other ten countries in the euro-zone but even so will only strike seven of the eight denominations. Belgium is likely to be the next to mint. All have pledged that their coinage will be struck and their notes printed before January 2002.

Attention is now focusing on the complex problem of the withdrawal of old coinage during the first months of 2002. Mint experts estimate that some 140,000 tonnes of coinage will have to be taken out of circulation across the euro-zone. The coins will be recycled and the metals, mostly copper, sold to cover almost half the cost of minting.

In the French case the authorities say they hope to raise FFr600m-FFr800m ($98m-$131m) from this operation.

But much will depend on coordinating with metal traders to ensure that flooding the market with the remains of defunct francs, D-Marks and guilder does not depress the price.

Sorting hawks from doves, Page 3
Editorial Comment, Page 19

Populist Estrada heads for poll victory in Philippines

By Justin Marozzi in Manila

Former film star Joseph "Erap" Estrada, the populist Philippine vice-president with a self-confessed history of hard drinking and womanising, last night looked set to replace Fidel Ramos as the next president, according to early election returns and exit polls.

Unofficial returns indicated Mr Estrada had established a commanding lead over Jose de Venecia, the administration's candidate, who failed to match the vice-president's opinion poll ratings throughout the rumbustious three-month campaign.

Early returns last night showed Mr Estrada leading, ahead of Raul Roco, a senator who has taken the middle ground between the vice-president and Mr de Venecia. "It's all over bar the counting," Mr Estrada told reporters earlier.

Philippine elections are not computerised, however, and it may be two weeks before official results from all the islands within the far-flung archipelago are announced.

In the last national elections for president in 1992, early polls pointed to the victory of Miriam Defensor-Santiago, but it was Mr Ramos who was eventually proclaimed the winner. The National Movement for Free Elections (Namfrel), the citizens' official poll watchdog, says it hopes to reveal 95 per cent of the results of its "quick count" within 10 days.

At least part of Mr Ramos's call for "honest, orderly and peaceful elections" was heeded yesterday, with a marked decline in the level of election-related violence. According to police figures, the campaign ended with fewer than 30 deaths, compared with 86 in 1992 and 83 during the 1995 senatorial elections.

Investors, the political opposition, and the influential Roman Catholic church were worried about widespread cheating during the poll. But political commentators said early indications of Mr Estrada's strength would make such fraud more difficult.

In the run-up to polling day, Mr Estrada enjoyed a lead of 19 percentage points over his nearest rival. Many, including Cardinal Jaime Sin, the country's most famous prelate, believe Mr de Venecia cannot win unless the administration resorts to comprehensive vote-rigging.

Analysts said a victory for Mr Estrada, whose talk of income distribution has unsettled the business community, was unlikely to have a negative impact on the stock market in the short term. Gabriel Singson, the respected central bank governor, is expected to see out his term, which ends in the middle of next year. Mr Estrada has also announced several cabinet positions to reassure investors about continuity. For example, he has said Edgardo Espiritu, head of a local bank, will be the next finance minister.

"The market has already priced in an Estrada presidency," said Matthew Sutherland, head of research at Paribas Asia Equity in Manila. "The most important thing for investors is a smooth transition of power between now and June when the new president takes office."

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Irene Sáez, Miss Universe in 1981, officially launched her campaign to become the next president of Venezuela. Page 8. Picture: AP

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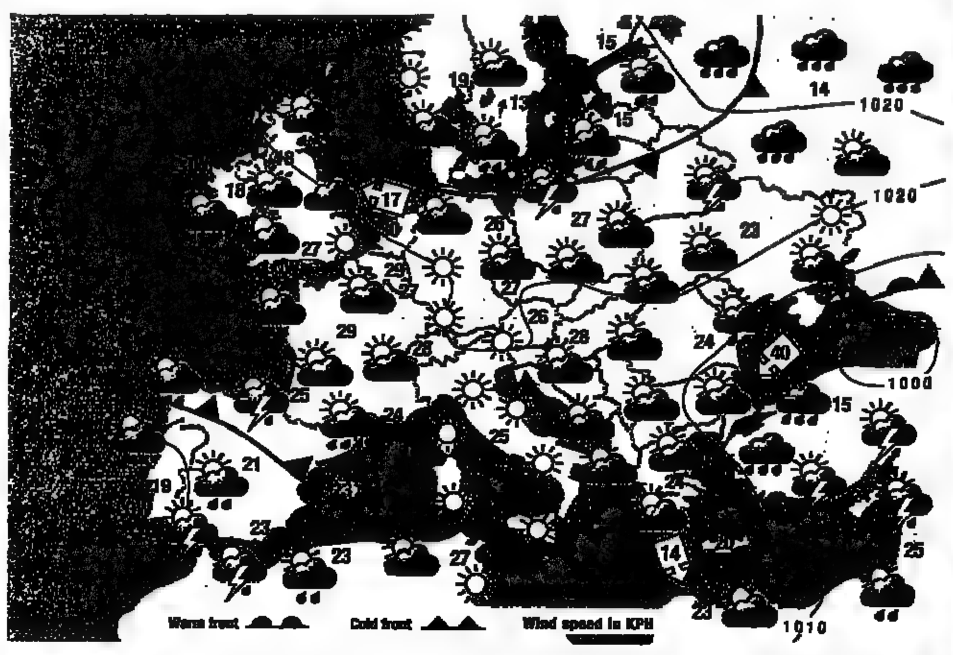
FT WEATHER GUIDE

Europe today

The Iberian peninsula will have showers and thunderstorms, some drifting across France towards the UK. Thundery showers may follow hot sunshine across the Low Countries, Germany and the Alps. The central Mediterranean will be sunny. Farther east, around Turkey and the Levant, there will be heavy rain and thunder. Heavy showers and thundery outbreaks over the Baltic states will spread southwards across eastern Europe later. Showers over Scandinavia will mostly die away.

Five-day forecast

The Iberian peninsula will have heavy showers and thunderstorms, clearing later as they spread east and north-east across the central Mediterranean towards Greece and the Balkans. Thundery showers will move across France and the Alps towards north-east Europe by the end of the week. Eastern areas will become dry.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES (Maximum Celsius)

City	Weather	°C
Abu Dhabi	Fair	36
Accra	Fair	31
Algiers	Shower	23
Amsterdam	Sun	30
Athens	Fair	24
Atlanta	Fair	29
B. Aires	Fair	23
B.ham	Shower	23
Bangkok	Thunder	37
Barcelona	Rain	20
Beijing	Fair	30
Belfast	Fair	19
Belgrade	Fair	26
Berlin	Fair	26
Bermuda	Shower	25
Bogota	Shower	20
Bombay	Sun	33
Brussels	Fair	29
Budapest	Fair	29
C.hagen	Fair	18
Cairo	Fair	27
Caracas	Fair	29
Cardiff	Fair	23
Casablanca	Shower	21
Chicago	Rain	21
Cologne	Sun	29
Dakar	Fair	26
Dallas	Sun	34
Delhi	Sun	32
Dubai	Sun	37
Dublin	Shower	18
Dubrovnik	Fair	23
Edinburgh	Cloudy	16
Faro	Shower	20
Frankfurt	Sun	29
Geneva	Sun	28
Gibraltar	Shower	21
Glasgow	Fair	18
Hamburg	Fair	24
Helsinki	Shower	15
Hong Kong	Cloudy	31
Honolulu	Fair	29
Istanbul	Rain	16
Jakarta	Fair	32
Jersey	Fair	19
Johannesburg	Fair	17
Karachi	Sun	38
Kuwait	Sun	44
L. Angeles	Shower	17
Las Palmas	Fair	23
Lima	Cloudy	25
Lisbon	Shower	19
London	Fair	27
Lux.bourg	Fair	27
Lyon	Sun	28
Madeira	Shower	20
Madrid	Shower	21
Majorca	Thunder	23
Malta	Sun	25
Manchester	Fair	23
Manila	Thunder	34
Melbourne	Cloudy	20
Mexico City	Sun	33
Miami	Sun	31
Milan	Sun	29
Montreal	Fair	19
Moscow	Rain	14
Munich	Sun	27
Nairobi	Fair	26
Naples	Sun	27
Nassau	Fair	30
New York	Shower	15
Nice	Fair	24
Nicosia	Thunder	24
Oslo	Fair	19
Paris	Fair	29
Perth	Cloudy	22
Prague	Fair	27
Rangoon	Sun	33
Reykjavik	Rain	9
Rio	Fair	29
Rome	Sun	25
S. Frsco	Shower	18
Seoul	Shower	23
Singapore	Thunder	31
Stockholm	Fair	13
Strasbourg	Fair	28
Sydney	Fair	21
Tangier	Cloudy	22
Tel Aviv	Shower	25
Tokyo	Rain	23
Toronto	Fair	20
Vancouver	Rain	17
Venice	Sun	27
Vienna	Sun	28
Warsaw	Fair	27
Washington	Shower	18
Wellington	Fair	14
Winnipeg	Rain	14
Zurich	Sun	27

FINANCIAL TIMES
COMPANIES & MARKETS
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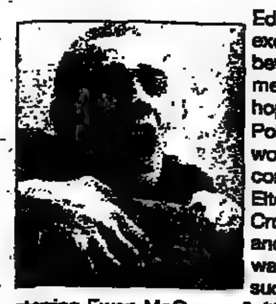
INSIDE

Bronfman faces PolyGram test



Edgar Bronfman, chief executive of Canadian beverages and entertainment group Seagram, is hoping to take control of PolyGram. It is the world's biggest record company which has U2, Elton John and Sheryl Crow among its acts, and its film business was behind cult hits such as *Trainspotting*, starring Ewan McGregor (left). But if Mr Bronfman fails, that will make it hard for him to defuse the criticism of his record at Seagram. Page 24

D-Mark falls against dollar
The D-Mark dropped against the dollar as investors decided they had overestimated the chance of an early German interest rate rise and took profits on the D-Mark's advance of last week. Page 31

Investors push Paris to peak
French investors, catching up with events after their long weekend, pushed Paris to a record high. Helped by strong gains for France Telecom, Alcatel Alsthom and the motor stocks, the CAC 40 index broke firmly above 4,000 to close 110.8 better at 4,017.24. Page 42

El Valle gold mine plans expansion
Today King Juan Carlos of Spain will open the El Valle gold mine in the Cantabrian mountains. El Valle, owned by Rio Narcea Mines, will produce 100,000 troy ounces of gold a year, making it western Europe's biggest gold producer. Output is to be expanded to 150,000 ounces. Page 32

Slovakia in landmark eurobond issue
The Slovak government is expected today to approve a landmark eurobond issue for up to $1bn to cover its 1998 foreign borrowing needs. Slovakia is expected to have to pay a heavy premium to attract investors to the issue. Page 30

Thai securities in foreign hands
In a turnaround from two years ago, foreign brokerages have become the dominant forces in Thailand's securities industry, as overseas groups pick up stakes in cash-strapped domestic companies and domestic retail investors switch to companies with strong balance sheets. Page 22

Sub-Sahara raises its profile
Africa's political and economic problems and the small size and low liquidity of the markets have kept the larger investors away. But recent visits by President Bill Clinton and James Harmon, US Export-Import Bank chairman, have raised the profile of sub-Saharan Africa. Page 42

Kenya set for record tea harvest
Kenya is on target for a record tea harvest this year on the basis of the crop from the first three months which shows a rise of more than 96 per cent above the same period in 1997. Page 32

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MARKET STATISTICS

PPG prepares a bidding war for Courtaulds

By Andrew Edgecliffe-Johnson

US paints and glass group tries to overhaul Akzo Nobel's $3bn bid

PPG International, the US paints and glass group, has joined forces with Donaldson, Lufkin & Jenrette, the US investment bank, to counter Akzo Nobel's £1.83bn ($3.05bn) agreed bid for Courtaulds, the UK coatings, fibres and chemicals maker.

Courtaulds announced yesterday it had "very recently received a preliminary approach from another party that may be interested in making an offer at a level above that proposed by Akzo Nobel". The Dutch group made its offer last month. Although neither company would comment on the identity of the possible rival bidder, it is understood that PPG and the venture capital arm of DLJ approached Courtaulds about a week ago.

It outlined plans for a joint cash bid at a price sufficiently above 450p for Courtaulds to take the proposal seriously.

PPG is being advised by Goldman Sachs, and DLJ by its own corporate finance division. Wasserstein Perella, the US corporate finance house, is co-ordinating the two companies' joint approach.

PPG, the world's largest manufacturer of industrial and automotive paints, is interested only in Courtaulds' coatings and sealants division, which made £85m operating profit from £983m of sales in the year to March 1997.

DLJ, which has made a number of acquisitions in the chemicals sector, is planning a leveraged buyout of the fibres and chemicals division, which includes the Tencel man-made fibre, flame retardants and pharmaceutical intermediary chemicals. In the year to March 1997, it made £65m profit from £874m turnover.

Courtaulds has already begun an auction for its polymer products business, which is expected to be sold for £250m-£300m by July. Polymer products had sales of £228m and profits of £19m.

The consortium is still weeks away from being able to make a formal offer.

The Courtaulds board, led by Sir David Lees, chairman, and Gordon Campbell, chief executive, said yesterday: "In the absence of such an offer, and given the value and certainty of Akzo Nobel's offer, the directors of Courtaulds are [...] unanimously recommending the offer from Akzo Nobel."

It is thought that the potential complexity of a consortium bid, as opposed to an offer from a single party, was one reason for caution.

PPG's coatings business would have little overlap with Courtaulds coatings division, which has niche positions in marine, yacht, aerospace and protective paints. PPG's coatings division made $568m profit from $3.06bn sales last year.

Akzo has already raised the possibility of demerging its own fibres business with that of Courtaulds. Analysts speculated that DLJ could approach Akzo Nobel to buy the combined fibres business instead, although such a package would exclude Courtaulds' chemicals interests.

Lex, Page 20

Former CSFB chairman joins Barclays Capital

By Simon Davies, Capital Markets Editor

Hans-Joerg Rudloff, one of the architects of the euromarkets and a former chairman of the investment bank Credit Suisse First Boston, has been appointed de facto chairman of Barclays Capital.

The move is aimed at building credibility for the debt capital markets business created after Barclays sold its BZW equities operations last year.

Barclays Capital is still an also-ran in most markets where it aims to become a significant competitor.

Martin Taylor, chief executive of Barclays, said: "Hans-Joerg Rudloff is someone who has helped shape today's global markets and who has a unique network of relationships around the world. His decision to join Barclays Capital underscores the progress the investment bank has made since we refocused the business."

Some investment bankers suggested that Mr Rudloff was yesterday's man, having left CSFB in 1993 and withdrawn from the business he subsequently built up, MC Securities, after the recent takeover of its largest shareholder, Banque Bruxelles Lambert.

However, one US competitor commented: said: "I think that he will be a terrific rainmaker for them. It's a real coup."

Mr Rudloff will be chairman of the executive committee of Barclays Capital, a full time role that will focus on building client relationships, although he will remain vice-chairman of pharmaceuticals group Novartis. Bob Diamond continues as chief executive.

Mr Rudloff said it was Barclays' decision to focus on its debt business that had interested him in the job. The bulk of the equity business was sold to his former employer, CSFB.

"Trying to be everything to everyone is a management task that I think is virtually impossible to fulfil," he said. "Just look at where the European banks are today in their attempts not just to be global, but to be global in everything. I have a feeling that they are not going to get very far."

Mr Rudloff worked for several years with Mr Diamond at CSFB, which also influenced his decision to take the job.

Mr Diamond claims Barclays will take a place in the premier league of investment banks in the fast growing European capital markets.

Barclays already tops the league tables in sterling bonds and European syndicated loans.

But according to IFR Securities data it is in eighth place for eurobond issues so far this year, and it does not make the top 10 after global bond issues are included.

Happy to be here: Hans-Joerg Rudloff, an architect of the euromarkets, who is joining Barclays Capital as chairman of the executive committee.

KNP sells packaging division to CVC and Cinven

By Gordon Cramb in Amsterdam and Simon Davies in London

KNP BT, the Dutch packaging and distribution group, yesterday agreed a Fl 3.4bn ($1.7bn) sale of its packaging division to CVC and Cinven, two UK venture capital companies, in the biggest venture capital deal in Europe this year.

CVC and Cinven beat off David S. Smith, the UK packaging company, in a fierce auction. Other bidders included Metsa-Serla, the Finnish pulp and paper group, and financial buyers Investcorp and Candover.

Klaas de Kluis, KNP's acting chairman, said the newly renamed Kappa Packaging unit, the third largest producer of fibre-board based packaging in Europe, had commanded a price "not seen before in the industry". An analyst at Goldman Sachs said it was "a very steep price."

Despite historical volatility in paper and packaging, bidders were prepared to put together highly leveraged deals, with debt funding for up to 80 per cent of the acquisition cost.

The CVC/Cinven financing package, arranged by Barclays Capital, will include the biggest ever high yield – or junk bond – issue in a European currency. The amount was not disclosed but is understood to exceed the £300m raised this year by NTL, the UK cable company. There will also be a syndicated loan.

Kappa had sales last year of Fl 2.8bn and operating profits of Fl 252m. It will continue to be headed by Frits Beurskens, the president.

John Brown, deputy managing director of Cinven, said: "One of the reasons we have done this jointly with CVC is that it gives us significant (financial) firepower." Kappa was likely to be listed in three to five years.

The deal is the final main element in an operation by KNP to unwind a 1993 merger.

KNP is to pass the Fl 1.1bn net proceeds of the Kappa sale to shareholders through a restructuring of its capital. Its shares jumped 8 per cent on the news.

KNP shareholders will receive Fl 11.20 per share, representing 20 per cent of the closing price in Amsterdam last Friday of Fl 56. Yesterday they ended at Fl 60.50. The shares will then be consolidated to generate four new units for every five existing shares.

CHEMICALS COMPANY WILL SPEND PROCEEDS OF SALE ON EXPANDING ITS LIFE SCIENCE OPERATIONS

DuPont to dispose of Conoco oil group

By Christopher Parkes in Los Angeles

DuPont, the diversified chemicals group, is to dispose of its Conoco oil and gas business and spend the proceeds on expanding life science operations, where it sees opportunities for faster growth.

The disposal will start with an initial public offering this year of 20 per cent of the world's ninth largest oil producer. It will be one of the biggest such deals on record.

The remainder would be disposed of either through further stock offerings or spin-offs to Conoco shareholders as soon as practical, the company said.

Wall Street welcomed the divestment, which will cut DuPont in half in terms of revenue. The group's stock had advanced almost 8 per cent by early afternoon in a rising market.

"DuPont will have access to cash from the IPO and at the same time will benefit from Conoco's ongoing financial contribution as we consider the options for divesture," said Charles Holliday, group president and chief executive.

An independent Conoco would have more freedom to invest or form alliances to take advantage of international opportunities offered by privatisation and deregulation.

Radical change was foreshadowed by the appointment of Mr Holliday in February, and an organisational reshuffle designed to sharpen the group's focus on agricultural biotechnology and pharmaceuticals.

Although the company said yesterday it was not interested in "large, dilutive" pharmaceuticals acquisitions, efforts to reduce its dependence on the cyclical energy industry emerged last year when it spent about $8bn on life sciences acquisitions.

The process advanced last month with the purchase for an undisclosed sum of Hybrinova, the hybrid wheat subsidiary of France's Lafarge.

It has also recently bought Britain's Cereals Innovations Centre and Protein Technologies, a leading supplier of soybean-based proteins.

Analysts said the Conoco sale was a belated response to pressure from investors, while DuPont's strategy appeared to be driven by Monsanto, a competitor that has largely withdrawn from cyclical chemicals.

Monsanto yesterday announced two further life sciences deals: the $3.7bn acquisition of the 60 per cent it did not already own in seed breeder DeKalb, and a stock swap to acquire cotton seed specialist Delta Pine & Land.

Mr Holliday said it was "imperative that we rapidly accelerate our investment to capture market opportunity".

Biotechnology and drugs account for less than 20 per cent of DuPont's net operating income. The group said last year it aimed to increase the share to 30 per cent by 2003.

Despite investor pressure for divestments of chemicals and commodity fibres interests, the group last year bought white pigment and polyester operations from Imperial Chemical Industries of the UK for $3bn.

Lex, Page 20

Anglovaal plans to restructure

Menell and Hersov families to give up control as conglomerate aims to woo international investors

By Victor Mallet in Johannesburg

Anglovaal, the South African mining and industrial conglomerate, yesterday announced a long-awaited restructuring that will end 65 years of control by the Menell and Hersov families.

The group will spin off Anglovaal Holdings to shareholders, close Anglovaal Ltd's head office in northern Johannesburg with the loss of 130 jobs and rationalise its capital structure to create a single class of listed shares. It will also separate its mining and industrial assets and phase out family control within three years.

Anglovaal is the latest of several big South African groups to bow to pressure from investors by unwinding complicated shareholding mechanisms. It follows similar moves by Anglo American and Gencor to simplify their structures, partly to make them more attractive to international investors.

Anglovaal has been hit by weak prices for its main minerals, including gold, and by increased competition as South Africa liberalises its economy after apartheid. Conglomerates - especially modest-sized ones such as Anglovaal - have meanwhile fallen out of favour with institutional investors around the world.

"It's a very complex structure which analysts have found very difficult to understand," Basil Hersov, Anglovaal chairman and managing director, said yesterday. His father was a co-founder of the group in 1933. "For the first time in our history both the industrial and the mining assets hit a down, whereas in the past one more or less cyclically balanced the other."

Yesterday's announcement is the product of a strategic review assisted by Morgan Stanley. The statement added: "The corporate governance standards now demanded by the investment and political communities will require change in the composition of the group companies' boards."

But the Hersov and Menell families say they have decided to retain control temporarily to push through reforms begun at the group's operating subsidiaries and so maximise shareholder value.

The group structure should be simplified by the end of this year and the families will relinquish control by June 30 2001, by which time the voting interests of shareholders will match their financial interests in the group.

Anglovaal Holdings and Anglovaal Ltd, which have five different listed securities with different voting powers, will first be consolidated into a single holding company called AVL with one class of shares. AVL will be split into two holding companies, one for Anglovaal Industries and one for Anglovaal Minerals. It is these holding companies that will be temporarily controlled by the families.

Anglovaal Holdings shares rose R1, or 17 per cent, to R7 yesterday in Johannesburg, while Anglovaal shares rose R1.40 or 2 per cent to R88.

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Daimler set to move into heart of Japanese industry

Nissan deal will help its aim of lifting Asian market share, writes **Paul Abrahams**

For a Japanese company to sell control of a business to foreigners is an unusual and significant step. For the group to sell an operation to foreigners with its own name attached is probably unprecedented.

Nissan is taking such a momentous step. The Japanese automotive concern is considering the disposal of as much as 33 per cent in Nissan Diesel, its quoted truck subsidiary. If the deal is concluded, it would allow a foreign manufacturer deep into the heart of the Japanese industrial system.

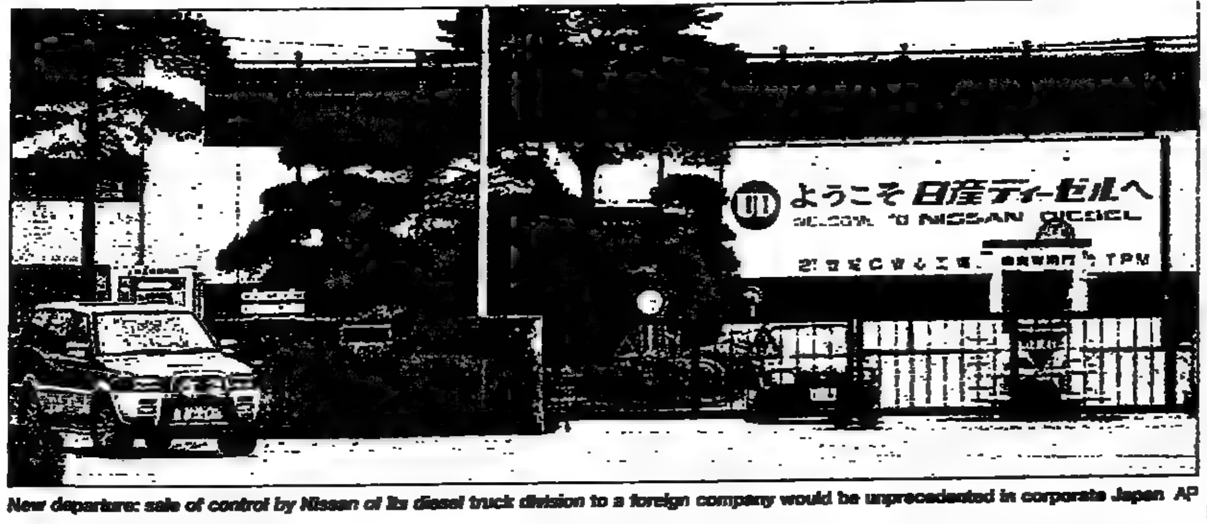
The entire Japanese automotive sector is dealing with a sharp downturn in demand. In April, industry-wide car sales dropped 7.4 per cent year on year, a shock to the sector, which had been expecting a rebound of about 8 per cent, explains Noriaki Hirakata, automotive analyst at Morgan Stanley.

But Nissan's problems are worse than most. The company has a lacklustre product line-up and little exposure to the relatively buoyant recreational vehicle market.

With problems at home, the company, unlike its rivals Toyota and Honda, has been unable to take advantage of the weakness of the yen and buoyant US demand. Without recreational vehicles, the US subsidiaries' marketing strategy has depended heavily on discounts. When these ended, sales suffered and the group was left with large quantities of leased vehicles with secondhand values far below expectations.

With profitability in Japan low and probably non-existent in the US, the group's cash flow is weak. Return on equity has been pitiful – negative between 1992 and 1995, and just 5.7 per cent and 5.4 per cent in the following two years, according to Morgan Stanley Dean Witter. Investments in plant in the US and UK has left the group with big debts: its consolidated debt-to-equity ratio is about 250 per cent.

Nissan's plight would be less desperate if it could call on a strong *keiretsu* business grouping for help. But Nissan belongs to the Fuyo group, which has its own huge problems. This is the *keiretsu* consisting of troubled banks such as Fuji Bank and Yasuda Trust that was willing to allow Yamaichi, Japan's fourth largest securities company, to fail last November.



New departure: sale of control by Nissan of its diesel truck division to a foreign company would be unprecedented in corporate Japan AP

Nissan Diesel has been a headache for its parent. Japan's fourth-largest truckmaker faces falling sales at home and overseas and weak profitability. Nissan Diesel is predicted to have made net profits of just Y400m ($3m) last year on sales of Y319bn. In the current year it expects net losses of Y2bn.

The question remains what Daimler-Benz might be buying and why. The company, which claims to be the world's biggest truckmaker, said yesterday its medium-term ambition was to increase its Asian market share from 8 per cent to 25 per cent. Acquiring Japan's fourth largest truckmaker would be a big move in that direction.

Daimler-Benz has been grappling to find the right strategy in Japan for a decade. In the early 1990s it set up a venture with the Mitsubishi business grouping to market its trucks, but found that using a competitor to market its products was not a compelling sales strategy. Owning a controlling stake in Nissan Diesel could be much more efficient.

How much the German giant would have to pay remains a conundrum. On Friday, before rumours of the deal began circulating, the shares were trading at Y160, valuing the whole group at just Y37.7bn ($290m), and a 33 per cent stake at just Y11.4bn. Yesterday, the shares were untraded because there were no sellers.

In most acquisitions a controlling premium is paid, but when valuing Japanese companies there is always a problem of transparency. Valuing Nissan Diesel involves huge balance sheet issues, not least the size of debts. Apparently, many of its dealership subsidiaries also have big liabilities that may not be on Nissan Diesel's balance sheet.

It is far from clear that the deal will go ahead. Both parties stressed yesterday that an acquisition was only one of three options being considered. If completed, the deal could provide Daimler-Benz with a meaningful market share in Asia and kick off a restructuring of Japan's automotive industry. It might also herald a wave of foreign acquisitions to transform corporate Japan.

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Australian link-up for Fidelity

By Gwen Robinson in Sydney

Fidelity Investments, of the US, yesterday became the latest international fund management group to enter the growing Australian market, through a tie-up with Perpetual Funds Management, one of Australia's leading trustee companies.

The two groups have agreed a strategic product alliance which they said would provide "geographic diversity" and give Australian retail investors access to co-branded international investment products.

The deal comes on the heels of last week's announcement of a more comprehensive tie-up between Vanguard Group, Fidelity's arch-rival, and Lend Lease Corporation, a leading Australian financial services group.

Both moves reflect intensifying competition among foreign and domestic fund management groups for a share in the growing pool of Australian superannuation funds, under a government plan that will require employers to offer employees a choice of fund managers for compulsory superannuation contributions.

The latest tie-up does not entail extra investments by either group, but it allows Fidelity to penetrate the Australian retail market while Perpetual will offer investment in the Fidelity Perpetual International Fund. This comprises investments from across the US, Europe, south-east Asia and Japan.

Brett Goodin, Fidelity Investments Asia-Pacific managing director, said the deal formalised ties between the two. Perpetual acquired Fidelity's A$150m (US$95.6m) Australian retail business in 1993.

Fidelity previously lacked the resources to cover the Australian retail market, but changes in regulations had driven the push for more exposure on the retail side.

"We realised retail would be the strongest growth sector in the Australian market," Mr Goodin said.

Rodney Green, head of Perpetual Funds Management, said the alliance would boost Perpetual's share of the managed fund market from 4 per cent to about 15 per cent. Perpetual would rebadge its five international funds and promote them as co-branded international investment products.

"We have come to consider the Australian retail market as the fastest growing portion of the [Australian] market," Mr Goodin said. "A lot of products are going to be sold through the retail sector ... and if we were missing out on that, we would be missing out on a pretty exciting part of the market."

Japan oil group may close plant

By Alexandra Harney in Tokyo

Showa Shell Sekiyu, the Japanese oil group, yesterday admitted it was considering closing one of its refineries.

The admission by the company, a joint venture between Showa Oil of Japan and Shell, the Anglo-Dutch group, reflects the poor profitability of the Japanese oil sector, which has been affected by falling oil prices and last month's deregulatory reforms.

Oil companies are scrambling to cut costs and boost efficiency. Two of Japan's largest oil distributors, Nippon Sekiyu and Japan Energy, have already announced plans to close refineries in northern Japan.

Showa Shell intends to cut about 20 per cent of staff from 1995 levels and to lower transport costs by 2000. "We are cutting expenditures in every area," it said.

The company's shares closed up Y3 at Y666 in Tokyo yesterday.

Two rounds of reforms since 1996 have opened the oil market to new importers and self-service stations. As companies readjust to cope with new competition, refinery closures, mergers and facility sharing among companies should increase, analysts predict.

"It is a natural consequence that they would cut capacity," said Mizune Hosokawa, oil analyst at SBC Warburg in Tokyo.

Last month's reforms were likely to stiffen price competition as self-service stations offer cheaper fuel, said Ms Hosokawa. In Japan, where job losses are still rare, groups were likely to close inefficient plants before firing workers.

NEWS DIGEST

JAPAN

Two trading groups under review for debt downgrade

Two Japanese trading companies, Nissho Iwai and Marubeni, were yesterday put under review for possible downgrading by Moody's, the credit-rating agency.

Mutsuo Suzuki, senior analyst at Moody's in Tokyo, said the companies' weak economic capital and debt structure, as well as problems in the domestic and Asian economies, all caused concern about the companies' outlook.

Marubeni's senior debt is currently rated A3, and Nissho Iwai's Baa2. If Nissho Iwai were downgraded to Baa3, that would put it on the borderline of what is usually considered investment grade. Nissho Iwai's Prime-2 rating for short-term debt is also under review.

Moody's put two other trading companies, Kanematsu and Itochu, on the list for possible downgrading five months ago, but so far has neither downgraded nor confirmed their ratings. **Bethan Hutton, Tokyo**

MITSUBISHI MATERIALS

Share buy-back planned

Mitsubishi Materials, the Japanese maker of metals and ceramics, plans to change its corporate code so it can buy back its own shares to cancel them. If the change is approved at the shareholders' meeting, Mitsubishi Materials will be able to buy back up to 213m of its shares. Up to 113m of the shares will be repurchased with funds from profits, and up to 100m shares, worth Y30bn ($226m), will be bought back with funds from reserves. The company has 1.13bn shares outstanding. **AP-DJ, Tokyo**

CARMAKING

Ssangyong to lift output

Ssangyong Motor, the South Korean carmaker, plans to raise annual output from 70,000 to 200,000 units by 2000. The group said 120,000 cars would be sold overseas.

The company said it planned to improve production efficiency and quality as well as lower costs. It said it would improve price competitiveness by adopting a simplified distribution system. As a result, Ssangyong hoped to return to profit within two years. **AP-DJ, Seoul**

HOTELS

HK group considers US project

Hongkong and Shanghai Hotels said it was considering a hotel project in a US city and looking at opportunities in south-east Asia following the regional turmoil.

Michael Kadoorie, chairman, did not give details of the US project, saying there was no guarantee it would go ahead. "There are a number of projects we are reviewing," he said, including "one in the US, but it is very early in the dialogue."

Douglas Webster, director, said the company had reached agreement with the Sydney city council in Australia over the design of the company's apartment project, which has raised objections. The project will be complete by the end of 1999.

He added that it was impossible to say if further provisions for write-downs in the value of the company's regional investments would have to be made in 1998. "I would be surprised if we would have to do anything like last year, but we will have to wait and see," he said. For 1997, Hongkong and Shanghai Hotels reported a provision of HK$228m (US$29m) against the Sydney project, HK$189m against projects in Bangkok, HK$55m against Beijing, HK$44m against Jakarta, HK$25m against Hanoi and HK$24m against Hong Kong.

First-quarter occupancy for the Peninsula Hotel in Hong Kong was 47 per cent, while the Kowloon achieved 79 per cent. **AFX-Asia, Hong Kong**

Haseko to cut staff by 10%

By Gillian Tett in Tokyo

Haseko, the Japanese construction group, yesterday said it would cut 10 per cent of its staff as part of a broader restructuring plan.

The move to cut the workforce by 570 to 5,160 in the current year comes amid growing market concern about Japan's construction sector.

Over the past year several small construction companies have folded and share prices in the sector has fallen sharply. Analysts fear that if further failures emerge in the coming months, market confidence could be dented, because of banks' heavy exposure to the sector and the large numbers employed by construction companies.

Haseko yesterday insisted that its restructuring plan should be sufficient to ensure its longer-term viability. Its shares rose Y15 to Y92.

Sentiment was also boosted when Daiwa, the company's main bank, indicated it would continue to support the group in exchange for some management control. Daiwa Bank plans to send Takashi Iwao, a senior managing director, to Haseko this summer to oversee the restructuring.

Haseko will cut general spending by 11 per cent, or Y2.2bn ($17m), while staff costs at the company and its affiliates will be reduced by 12 per cent, or Y3.7bn. Some of the job cuts will be achieved through early retirements.

The number of board members will be reduced from 32 to 24, and their salaries will be cut as part of the business restructuring, the company said.

Haseko also revised its parent and group earnings estimates for the year just ended. Its estimate of parent net profit for the year to March 31 was revised downwards from an earlier Y4.3bn to Y1bn.

The falling stock market over the past year has forced the company to post an appraisal loss of Y5.4bn on its securities holdings and an extraordinary loss of Y1.8bn on the sale of securities.

However, Haseko revised its parent profit estimate upwards to Y8.2bn for the current year, because of higher profits from finished construction. It had previously forecast a profit of Y5bn.

Thailand succumbs to overseas brokers

Seven of top 10 brokerages have significant foreign ownership, reports **Ted Bardacke**

Foreign brokerages have become the dominant forces in Thailand's securities industry, as overseas groups pick up stakes in cash-strapped domestic companies and domestic retail investors switch to companies with strong balance sheets.

Of the top 10 brokers in Thailand by volume during April, seven have significant foreign ownership, according to figures released by the Stock Exchange of Thailand. The top 10 brokers account for more than 50 per cent of all turnover on the exchange.

This foreign presence is a rapid turnround from just two years ago, when Thai brokers attempted to limit membership on the Thai stock exchange to brokers with foreign ownership of 25 per cent or less. Efforts to fight that move led to the formation of the Foreign Brokers Group, which is now all but dormant.

"Probably an association of foreign shareholders in local joint ventures would be more appropriate," says George Morgan, president of the Foreign Brokers Group and managing director of number-two ranked Asia Securities Trading, a joint venture between the Bangkok Bank group and ABN Amro Hoare Govett.

By law, foreigners are limited to holding 49 per cent of a securities company, but they often take management control when they buy such a significant minority stake.

One force driving the trend is the number of deals prompted by the collapse of the Thai stock market, problems with margin loans and the near-bankruptcy of the finance companies that used to control big local brokers. Since the devaluation of the Thai baht last July, four of the top 10 have been sold to foreign investors in deals worth more than $100m.

These deals have helped mask some retreats from the Thai stock market by big foreign houses, most notably BZW and Deutsche Morgan Grenfell.

Retail Thai investors suffered trading complications last year when 58 finance companies – 22 of which had securities licences – were shut by Thai authorities.

According to Mr Morgan, many retail investors are looking at balance sheet strength, often provided by a big foreign partner, as a primary consideration when choosing a broker. Those brokers are also the only ones with the resources to employ sales staff to drum up business.

Margin lending, disdained by many foreign houses in Bangkok, has also dried up and with it has disappeared a crucial former marketing tool. Aggressive and risk-taking local brokerages used to lure retail players away from established companies with freely available credit.

Also, foreign investors now account for about 45 per cent of all trades on the exchange, compared with 30 per cent a couple of years ago. This helps boost the market share of foreign-dominated brokers.

The trend towards foreign control is also evident at investment banks, given that most of the cash needed to recapitalise corporate Thailand is outside the country.

Other foreign houses, such as Indosuez W. I. Carr and SocGen Crosby, have bought into local brokerage houses and some of the remaining companies in the top 10 are in merger discussions with foreign companies. As a result, Mr Morgan says, all of the top 10 brokers may soon be foreign joint ventures. "The trend will be with us for a while," he says.

Top 10 brokers in Thailand

Broker	Strategic foreign partner	% of total industry turnover
Securities One	KS Investments	10.3
Asia Securities Trading	ABN Amro	8.1
Phatra Securities	–	7.2
JF Thanakom	Jardine Fleming	6.4
Dhana Siam Securities	–	6.0
Nava Securities	Vickers Ballas	5.2
SBC Warburg Finance	SBC Warburg	5.0
Capital Nomura Securities	Nomura	4.3
National Securities	–	4.1
Seamico Securities	[illegible] Group	4.0

Source: [illegible]

COMPANIES & FINANCE: INTERNATIONAL

SBC-AMERITECH CHIEF EXECUTIVE SEES NEW GROUP IN A POSITION TO 'COMPETE HEAD-TO-HEAD WITH INCUMBENT LOCAL EXCHANGE CARRIERS'

Merger provides international reach

By Alan Cane

Industry analysts suggested yesterday that the SBC-Ameritech merger had only minor significance for international, rather than North American, telecommunications. They pointed out that neither company seemed to have an integrated, as opposed to an opportunistic, strategy for foreign investment.

There are some obvious implications, however. The first, for operators outside the US, is that the number of potential purchase or merger possibilities offering access to the US market has declined by two. The second is that the new company will be of such a size that virtually any other operator, regulators permitting, would be within its reach.

Yesterday Edward Whitacre, SBC chief executive, said the new company would "build on its growing international presence to serve a worldwide market ... We will be positioned to compete head-to-head with incumbent local telephone companies, competitive local exchange carriers, data networks, long distance carriers and global competitors."

Both SBC and Ameritech have investments abroad. SBC's chief foreign holding is a 9.57 per cent stake in Telmex, the Mexican national operator. Held as part of a consortium involving France Telecom and Mexico's Grupo Carso, the holding is a natural complement to the US company's operations in Texas and California – more than 50 per cent of all telecoms traffic between the US and Mexico originates in SBC's markets.

SBC has a 49.3 per cent stake in VTR, a privately owned Chilean telecoms holding company; a 10 per cent stake in SFR, the French mobile phone operator; and a 50 per cent stake in Amrec, an Israeli company with interests in cable television and publishing. It also has an 18 per cent stake in Telkom South Africa, representing an investment of $757m, and holdings in South Korea, Switzerland and the UK.

Ameritech is the largest US investor in European telecoms, with interests in some 15 countries. The company claims to have invested $4.7bn for stakes in European companies that are now worth some $7.5bn. Richard Notebaert, chief executive, says the company invests only in stable environments where the political climate encourages entrepreneurial opportunities.

The company is a 29.8 per cent shareholder in Matav, the Hungarian telephone company, and has a 17.5 per cent interest in Belgacom, of Belgium. Mr Notebaert argues that European companies going through privatisation and liberalisation need a partner to learn from: "We think we have a skill set that can be helpful to other companies".

Ameritech also has a 42.4 per cent stake in Tele Danmark and a 19.7 per cent interest in NetCom, the Norwegian wireless provider and 100 per cent of Wer Liefert Was? a leading European producer of online and printed business directories.

Union helps Baby Bell grow up

By Alan Cane in London and Nikki Tait in Chicago

SBC Communications, the largest and most admired of North America's local phone companies came into being in its present form in 1996 through the merger of SBC – with strengths in Texas and the southern states – and Pacific Telesis, with operations in California and Nevada.

RBOCs (Regional Bell Operating Companies) or "Baby Bells" originated from the break-up of AT&T in the early 1980s, leaving the US with a pattern of local monopolies but competition in long distance and international calls. The 1996 Telecommunications Act was supposed to change all that and provided the stimulus for the creation of the modern SBC. It last made headlines when a potential merger with AT&T was discouraged by the US regulator.

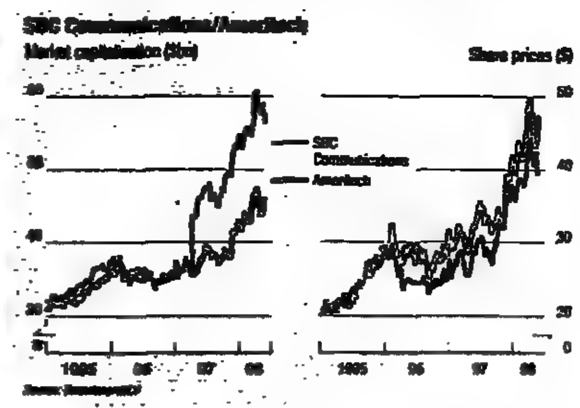
Today, SBC has nearly 34m fixed telephone lines and more than 5.6m mobile phone customers. While it has investments in 10 operators abroad, its brands – Southwestern Bell, Pacific Bell, Nevada Bell and Cellular One – are chiefly recognised in the US.

Edward Whitacre: credited with being driving force at SBC AP

The driving force behind SBC is Edward Whitacre, chairman and chief executive, a rangy, laconic Texan with a reputation for delivering success.

SBC remains the only former Bell company that has increased both earnings and dividends every year since divestiture in 1984. Revenues last year were $25bn; earnings were $3.4bn.

Ameritech is the most unusual of the Bell companies. With local strengths in Chicago and Detroit, it has diversified into security services and is the largest foreign investor in European telecoms. It had planned, by 2002, to derive equal revenues from its core activities and its new initiatives. Wall Street approval has seen its share price rise sharply this year.



But its failure to get into the long-distance market for regulatory reasons has caused an increasingly critical eye to be cast over its diversification and international strategy.

The point is made that, on the business front at least, locally-based multinational customers would have little reason to remain loyal to Ameritech when larger rivals could offer global package deals.

The strategy of diversifying in the security industry was also seen initially as a smart move. However, other utilities with deep pockets – such as Western Resources, the Kansas-based utility, and the large Entergy group – have similar strategies and acquisition prices have been driven up as all players tussle for market share in what had traditionally been a fairly-fragmented industry.

Ameritech's purchases – for an aggregate $800m-plus – of the Florida-based Republic Group's security division and the Rollins home security assets in Atlanta last year, were seen as pricey deals. However, they did help keep Chicago-based Ameritech in the security businesses' top three, with about 1m subscribers. There have also been a number of management changes at the SecurityLink arm.

Yesterday's deal will be accounted for as a stock-for-stock merger, incurring no tax penalties – unlike a trade sale.

Ameritech shareholders will receive 1.316 shares of SBC stock for each Ameritech share held. With SBC's closing share price on May 8 at $42.37, the deal values each Ameritech share at $55.77. The merger gives Ameritech a total equity value of $62bn and an enterprise value, including debt, of $71bn.

The combined company will be owned 56 per cent by SBC shareholders and 44 per cent by Ameritech shareowners.

The deal will require the approval of the Federal Communications Commission and the Department of Justice. Under the provisions of the agreement, Ameritech may not solicit other potential acquirers.

Sunbeam to cut workforce

By John Authers in New York

Al "Chainsaw" Dunlap, chief executive of Sunbeam, the US domestic appliances company, yesterday unveiled cuts that will reduce the company's workforce by about one-third.

He also attributed the company's "debacle" during the first quarter to a series of "stupid" marketing agreements made while he was negotiating acquisitions.

Sunbeam incurred a loss of $44.6m in the first quarter, on revenues which dropped to $244.3m from $253.8m last time. It had already issue two separate profits warnings for the quarter.

The market appeared initially to be more concerned about the first-quarter results than the package of cuts, and Sunbeam's shares fell more than 6 per cent – down $1⅞ to $25¹³⁄₁₆ – in early trading. At the beginning of March, before the company issued the profits warnings, the shares were at $52.

Mr Dunlap outlined cost cuts that will lead to a charge of about $280m before tax this year, and a plan to grow internationally from next year. He claimed annual cost savings of about $250m would accrue.

The job losses include 2,800 from the closure of two factories in Mexico, and a further 2,300 through outsourcing and the consolidation of the three companies Sunbeam bought earlier this year – Coleman, Signature Brands and First Alert.

Mr Dunlap has retained Morgan Stanley Dean Witter to sell three businesses with a total of 1,300 employees. The group will be left with a workforce of about 9,500.

Ten existing headquarters buildings will be consolidated into one new headquarters being built in Boca Raton, Florida. The total number of factories will drop from 28 to 15, sales offices from 35 to 15, and warehouses from 47 to 14.

Mr Dunlap predicted that earnings per share would double from $1.00 this year to $2.00 next year, and would grow by between 15 per cent and 20 per cent annually from that base. This would be achieved by selling its full range of products through its distribution systems in Asia, Latin America and Europe.

Problems in the first quarter were caused by a 15.4 per cent fall in US sales. The company's barbecue grills, which it had distributed earlier than usual in a bid to avoid high inventories, failed to sell as well as expected.

Mr Dunlap said that bad weather caused by the El Niño climate effect had contributed to the problem because "people don't think about buying outdoor grills during a storm". Sunbeam was also hurt by having to order a product recall.

"I was working on acquisitions and I left the marketing guy in charge of operations – big mistake," Mr Dunlap said.

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CSFB close to Brazil purchase

By Jane Martinson in London and Geoff Dyer in São Paulo

Credit Suisse First Boston, the Swiss-American investment bank, is close to agreeing the acquisition of Banco Garantia, Brazil's leading investment bank, in a deal expected to be worth just over $1bn.

The two sides signed an exclusivity agreement at the end of last week, although an announcement is not expected for several weeks.

One banker close to the deal said the two sides were still "dotting the i's and crossing the t's".

The consideration, which has not been finalised, includes a basic price of just under $1bn and an earn-out based on future profits, and is about two times the bank's book value.

The acquisition of Garantia would make CSFB, which already has a sizeable business in Brazil, the largest investment bank in the country.

The deal further underlines the strong interest of international investment banks in Brazil. If it goes ahead, it trigger a wave of mergers and acquisitions within the Brazilian investment banking industry, which was hit hard during the Asian economic crisis at the end of last year.

Garantia has also held talks with Goldman Sachs and Morgan Stanley Dean Witter. Although Morgan Stanley broke off the talks, Goldman Sachs remains interested and has received approaches from other Brazilian companies.

While CSFB is understood to be interested in acquiring the whole of Garantia, including its international operations, it is particularly interested in the proprietary trading business, which has generated a large part of the bank's profits.

Last year CSFB bought part of the equities business of BZW, the investment banking arm of the Barclays Bank of the UK.

Garantia was considered the top investment bank in Brazil until it suffered heavy trading losses in October and November as a result of the Asian crisis.

Along with a number of other Brazilian investment banks, it was also forced to rethink its strategy after the crisis exposed the need for wider international contacts and a stronger capital base.

The bank, which has 19 partners and was modelled by its founders on Goldman Sachs, has a strong presence in corporate finance, asset management and equity broking, as well as its reputation as a trading house.

SPAIN UNIONS ARE CLOSE TO AGREEING LABOUR SHAKE-OUT TO REDUCE WORKFORCE AT POWER GROUP BY 36%

Endesa plans job cuts to save Pta114bn

By Tom Burns in Madrid

Endesa, the Spanish power group that will be fully privatised next month in a Pta1,366bn ($9.1bn) offering, plans to cut its labour force by 36 per cent over the next four years.

"Corporate efficiency and shareholder value are now our twin priorities," Rafael Miranda, chief executive, said yesterday.

The labour shake-out, the biggest on record by a profitable domestic company, will substantially raise the group's client per employee ratio.

Savings are expected to be Pta114bn over the next four years.

Mr Miranda said he was close to securing an agreement with unions to reduce the group's 23,377 workforce to below 15,000 by 2002 through voluntary redundancy incentives for all employees aged 52 or older.

Under an ambitious streamlining strategy, Endesa has unified its seven electricity generation distribution units into a single organisation to eliminate duplication costs.

The company's privatisation will be completed on June 8, after the sale by Sepi, the state holding company, of its 33 per cent stake.

The provisional structure of the share offer gives up to 85 per cent of the disposal to Spanish small savers. They will enjoy a 3 per cent discount on the issue price and a further 3 per cent cash bonus after six months if they hold on to the shares.

The privatisation will lift the number of shareholders in Endesa from 1.6m to more than 2m, making it the most widely distributed stock on the Spanish market.

International institutions will be offered between 10 per cent and 15 per cent of Sepi's stock and domestic institutions between 5 per cent and 10 per cent.

An immediate consequence of the privatisation is the departure from Endesa's board of seven directors, including the secretary of state for the economy and the secretary of state for employment, who represent the equity held by the government in the group.

Under plans to be announced at Endesa's annual meeting today, the board will be reduced from 18 to 15 members, with a majority of the directors coming from outside the group.

Endesa, which accounts for 48 per cent of power generation in Spain, will step up its geographical diversification with Pta395bn of investments until 2002. These will focus on Latin America, where Endesa bought control of Chile's Enersis electricity group last year.

Mr Miranda expects Endesa's earnings outside Spain to represent 20 per cent of attributable net profit by 2002, up from 6 per cent now. Earnings from non-electricity business units, which also stand at 6 per cent of net profits, are set to rise to 10 per cent over the period.

Brussels likely to block pay-TV venture

By Frederick Stüdemann in Berlin and Samer Iskandar in Brussels

Kirch Group and Bertelsmann, the German media companies, met yesterday in a last-ditch attempt to rescue their proposed digital pay-TV joint venture, which seems likely to be blocked by the European Commission's competition authorities.

Both companies said they hoped an agreement could still be reached with Brussels, which has said the joint venture would create a dominant group in the German pay-TV market. However, they conceded a solution was increasingly unlikely.

The proposed joint venture involves folding DF-1, a loss-making digital pay-TV company owned by Kirch, into Premiere, a successful analogue subscription service owned by CLT-Ufa and Kirch. Premiere, which has about 1.5m subscribers, would then convert to digital technology.

Together with Deutsche Telekom, the two companies planned to administer the technology needed for digital television and the distribution of programming along the German cable network.

Bertelsmann said before yesterday's meeting in Munich that the chances of approval from Brussels were "very slim".

It said any further compromises on the deal would make the venture with Kirch economically unviable.

Bertelsmann is involved in the venture through its 40 per cent stake in CLT-Ufa, the Luxembourg-based broadcasting group.

Karel Van Miert, the competition commissioner, met representatives from the two companies last Friday but no agreement was reached.

Yesterday a spokesman for Mr Van Miert said the companies "must improve their offer substantially [to gain approval]". Otherwise, he would ask his colleagues to veto the proposed venture at the Commission's weekly meeting on June 3.

Following talks last month with Mr Van Miert, Kirch and Bertelsmann said they were prepared to offer 25 per cent of the pay-TV rights to popular US programming, currently owned by Kirch, to a third party.

They also offered to allow a third party to join them and to let Deutsche Telekom part-own the digital television distribution system.

Kirch and Bertelsmann decided to pool their interests last year after a bitter and costly battle in which they tried to establish rival pay-TV services.

In a bidding war for the rights to popular films, Kirch made heavy commitments to studios such as Disney, Warner, Paramount and Universal.

The burden of refinancing these commitments and the losses incurred by DF-1 have drained Kirch's finances, prompting speculation that the company is in a cash crisis. If Brussels blocks the joint venture with CLT-Ufa, the situation for Kirch is likely to worsen.

Flushed with success: Trainspotting, starring Ewan McGregor, was a big success for PolyGram's film division

Bronfman seeking to hit the right note

Purchase of PolyGram would deflect criticism of his record at Seagram, writes **Alice Rawsthorn**

After Edgar Bronfman Jr, Seagram chief executive, addressed an entertainment industry conference in New York last month, one analyst asked icily whether he had any original ideas about running Universal Studios, its film subsidiary.

The implied criticism in her question resonated with the stream of articles then running in the US press about the Canadian group's poor performance in the three years after it had paid $5.7bn for control of Universal's film and music businesses.

Since the conference, Mr Bronfman has tried to placate his critics by stalking not one, but two acquisition targets. First, he approached EMI, the UK music company, only to withdraw. Then he started talks with Philips, the Dutch consumer electronics group, regarding its 75 per cent stake in the PolyGram music and film group.

If Mr Bronfman clinches a deal with Philips – and persuades his father, Seagram chairman, and uncle, co-chairman of its management board, to endorse it – Seagram will win control of the world's biggest record company, with U2, Hanson, Elton John and Sheryl Crow among its acts, and the film business behind such cult hits as *Trainspotting* and *Fargo*. But if he fails, the ensuing embarrassment will make it even harder for him to defuse the criticism of his record at Seagram.

The suave Mr Bronfman was warmly welcomed in Hollywood when he sold Seagram's 24 per cent stake in Du Pont, the US chemicals company, for $10bn, and bought 80 per cent of Universal (then called MCA) from Matsushita, the Japanese electronics group.

Wall Street was more sceptical. Analysts made no secret of their fears that the Seagram heir, a former songwriter, was seduced by Tinsel Town's glitter. And Universal's subsequent performance has done little to allay their concern.

The music division has fared well under Doug Morris, a fellow songwriter and former Warner Music executive, hired by Mr Bronfman. Hits from No Doubt, Erykah Badhu and the Wallflowers have increased its US market share, but Universal is still significantly smaller than PolyGram, EMI and other multinational music groups in Europe and Asia.

Meanwhile, Universal Studios has faltered with recent releases, as *Primary Colors* and *Mercury Rising*, fell below expectations. In the three years since Seagram bought Universal, its shares have under-performed the US market by 20 per cent, while Du Pont's have out-performed it by 10 per cent.

Mr Bronfman saw buying EMI as a bold move to turn Seagram into one of the world's most powerful music companies. EMI is strong in Asia and Europe, but weak in North America, making it a perfect complement to Universal Music. Seagram is believed to have been willing to pay over 600p for each of the UK group's shares, down 38p at 535p yesterday. But Sir Colin Southgate, EMI chairman, held out for at least 700p, and their discussions collapsed late last week.

Acquiring PolyGram, which made net income of Fl 787m on sales of Fl 11.1bn last year, would be even more audacious. Not content with running the world's largest record company, Alain Lévy, its French-born president, has adopted a more ambitious expansion strategy than Sir Colin, by spending over $1.2bn in seven years on starting a Hollywood-based film business.

The film division has yet to break even, although it is expected to do so next year. And Mr Lévy has needed a strong nerve to stick to his strategy, particularly in the past three years, when the profits of PolyGram's record labels have fluctuated in an unstable global music market.

He now faces the prospect of PolyGram changing hands just as his efforts are about to pay off. Philips announced last Wednesday that it was "evaluating" the future of its 75 per cent stake. Seagram, having struggled to agree a price with Sir Colin, broke off talks with EMI, and declared its interest in PolyGram.

Morgan Stanley, Seagram's adviser, has since been locked in discussions with Goldman Sachs, acting for Philips. It is understood the two camps are still thrashing out terms, and that Mr Bronfman has yet to meet Cor Boonstra, Philips president. Mr Lévy is believed to have rejected the possibility of staging a management buy-out, but it is not clear whether he will stay on if Seagram takes control.

Negotiations may still be at an early stage, but Seagram is thought to be anxious to complete them as quickly as possible. PolyGram's shares rose by Fl 4.9 to Fl 102.5 yesterday, valuing the company at Fl 18.45bn.

As Philips is not a forced seller, Seagram may have to pay a hefty premium. "Philips has no need to sell in a hurry," says David Chermont, analyst at Merrill Lynch. "There may be other bidders out there, and it could always sell shares on the market. Why own 75 per cent of a business, when you could go down to 51 per cent, and get the cash?"

Monsanto expands in agricultural genetics

By Nikki Tait in Chicago

Monsanto yesterday stepped up its commitment to the controversial and rapidly expanding area of agricultural genetics, with the announcement it would acquire full ownership of DeKalb Genetics and Delta & Pine in two separate deals, worth about $4bn in total.

The US pharmaceuticals, agricultural products and biotechnology group said yesterday it saw the transactions broadening the immediate availability of first-wave "agronomic traits", which guard against insect problems during the growing period. It also paved the way for the second wave of genetic engineering in agricultural products, which will be designed to enhance yields or to deliver specific nutritional contents.

Both companies have already partnered Monsanto in the commercialisation of genetically-engineered crop products. DeKalb, in which Monsanto currently holds a 45 per cent stake, is the second largest supplier of hybrid seed corn in the US.

Delta & Pine is a big producer and marketer of cotton seed, in which Monsanto holds a 4.7 per cent stake.

Hendrick Verfaillie, Monsanto president, said "speed" was the main reason for seeking full ownership, as the company sought to reinforce its position in the fast-evolving agricultural genetics field. "We have invested a lot of money ... and the value is really in the integration of breeding with genomics", he said.

In addition, he suggested that both companies would be better placed to push into international markets under the Monsanto umbrella.

Monsanto is offering $100 a share for the outstanding DeKalb common stock, valuing the target overall at more than $4bn, although the overall cost to Monsanto has been a more modest $2.5bn.

DeKalb's founding family put the company on the block three months ago, partly reflecting a belief that deeper pockets would be needed to maintain a lead in the crop biotechnology field.

The move drew international interest, and companies interested were said to include Novartis, Dow Chemical and AgrEvo, a German joint venture between Hoechst and Schering. Monsanto, which already had directors on the board, was always seen as a front-runner, although DeKalb had stressed it would entertain all offers.

Yesterday's price was well in excess of market expectations, with Mr Verfaillie admitting that DeKalb was "a very desirable asset". DeKalb shares surged $17¾ to $94¾ in early trading – having stood at only $33¾ before the auction.

Delta & Pine will be acquired in a share-swap deal which values it at around $1.75bn. Shareholders will receive 0.8625 Monsanto shares for each Delta & Pine share. Delta & Pine slipped $5 7/16 to $47 13/16, while Monsanto jumped $2 13/16 to $56 7/16.

Thomson faces millennium bill

By Edward Alden in Toronto

Thomson Corporation, the Canadian publishing group, said yesterday it was facing about US$100m in computer compliance costs over the next two years in preparation for the year 2000.

The company took an $11m charge against first-quarter earnings for the compliance programme, contributing to a $68m operating loss for the period on revenues of $1.25bn. This exceeded the $91m loss in the first three months of 1997, in a sector where first-quarter losses are usually made up as sales increase in the second half of the year.

However, the loss of 11 cents a share was an improvement on the 15 cents loss in the same period last year.

The estimated costs for the year 2000 were the first made public by the company. Analysts said Thomson's compliance costs were expected to be high because computers play a critical role in its core businesses of information publishing and newspapers.

Thomson is getting out of leisure travel – which in 1997 accounted for one-third of revenues but just 11 per cent of operating profits – with the sale of the UK-based Thomson Travel Group. The company announced yesterday that the offer price for Thomson Travel shares would be 170p, which is expected to raise at least £1.7bn ($2.8bn). The cash will be used to repay debt and finance acquisitions in legal and financial information services.

Ben Dube, an analyst with CM Oliver in Montreal, said the sale of the travel side should make Thomson's business less cyclical, improving its attractiveness to portfolio managers.

The first-quarter performance was stronger than last year in all three of the company's divisions. Earnings before interest, tax, depreciation and amortisation were up $31m to $148m.

Thomson shares were up 40 cents to C$43.65 in mid-day trading in Toronto.

Inmet sells stake in Peruvian copper/zinc project

By Scott Morrison in Toronto

Inmet, the Canadian mining company, has sold its 50 per cent stake in the Antamina copper/zinc project in Peru for C$70m (US$49m) after the company was unable to finance its share of development costs for the US$2.2bn project.

Inmet sold its stake to Teck and Noranda, two Canadian mining groups, which will each end up with a one-third stake of the project by way of an agreement with Rio Algom, also of Canada, which currently controls the remaining 50 per cent.

Eventually, the three companies will equally fund the project's development costs.

Under the agreement, subject to Peruvian government approval, Inmet recouped the estimated C$70m it invested in the property and in conducting a feasibility study at the site. It also received a 3.33 per cent net proceeds royalty in the project, to be paid by Teck and Noranda.

Antamina is expected to be able to produce 600m lb of copper and 360m lb of zinc over a 20-year period. That would make it the world's seventh-largest copper producer and the third-largest zinc mine. It would be one of the largest mining projects to be financed at one time.

Analysts said Inmet had bitten off more than it could chew.

Bill James, Inmet chief executive, said the size of the Antamina project relative to his company's financing capacity left Inmet with little choice other than to divest its asset.

It had staked its future on Antamina and set about selling other assets to finance the project. But low metals prices made it difficult to secure financing and the company's strategy fell apart after Homestake Canada backed out of a deal to buy Inmet's Troilus gold mine in Quebec.

The sale leaves cash-rich Inmet with a number of scattered assets and no clear future.

Mr James said the company would require two to three months to review options and devise a strategy. Inmet had C$352m in cash at the end of the first quarter.

Analysts suggested that Inmet might buy back shares that are considered to be greatly undervalued. Inmet's shares were down 25 cents to C$4.25 in early Toronto trading.

NEWS DIGEST

FOOTBALL

AFC Ajax shares score 30% premium on debut

Shares in AFC Ajax, the Netherlands' top football club, opened at a 30 per cent premium to their offer price on their Amsterdam stock exchange debut following a Fl 123.75m ($62m) flotation. Priced at Fl 25 in a subscription that closed last week, they first traded at Fl 32.50 before easing to Fl 30.30.

Some 2.72m shares changed hands, nearly 55 per cent of the amount made available to the public. The issue was more than 15 times subscribed. ABN Amro Rothschild – co-ordinator of the sale, and a joint venture of the Dutch bank that is the club's main sponsor – had to scale down subscriptions even from its recognised supporters, who were offered a preferential allocation. Institutions accounted for about 40 per cent of the demand. Arie van Os, finance director, described the outcome as an "enormous success".

The prospectus had listed risk factors including hooliganism, which "could lead to increased costs and declined income", and warned that "fixed costs, including players' salaries, are on such a level that income from the participation in the Champions League is of major importance". In the season just ending the club failed to qualify, and slipped into an operating loss. **Gordon Cramb, Amsterdam**

SGS-THOMSON MICROELECTRONICS

Plans revealed for two plants

SGS-Thomson Microelectronics, the European semiconductor manufacturer, is to spend $1bn on new plants in France and Italy. The Franco-Italian company is earmarking half of the sum for a new-generation 300mm wafer facility at Crolles, near Grenoble, in south-eastern France. The rest will be invested in a new advanced research centre for non-volatile technologies at Agrate, near Milan, northern Italy.

Observers said the move was a sign of the group's determination to keep pace with the latest developments in semiconductor technology. Building of the Crolles R&D and pilot line facility will start next year, with the first silicon processed in 2000.

The group is also pushing ahead with what it termed a "very aggressive" research plan which foresees the introduction of four new generations of non-volatile technologies within the next five years. "It is natural that if we want to stay among the leaders we have to move into the next generation," it said. **David Owen, Paris**

FINLAND

Metra to split into three

Metra, the Finnish conglomerate, plans to demerge its activities into three separate companies to be listed on the Helsinki Stock Exchange. The Waertsilae NSD and Metra Finance divisions would form a diesel and gas engine company; Sanitec a bathroom products company; and Imatra Steel, together with Metra's holding in Assa Abloy, Metra Real Estate and Metra's other investments, would form an investment company, it said.

As consideration for their current holdings, Metra shareholders will be given the same number of shares in each of the three new companies. The assets and liabilities of the parent group will be distributed among the new entities.

The demerger will come into effect in about a year, conditional on shareholder approval. **Agencies, Helsinki**

REINSURANCE

Investors reject Scor share plan

Scor, the Paris-based reinsurance group, received a reprimand yesterday when shareholders voted against a motion at its annual meeting that would have given the board discretion to create shares as protection during a takeover bid.

The group attempted to play down the importance of the vote, with one Scor director telling Agence France Presse that shareholders wanted to retain their freedom of action in the case of a takeover. It stressed that a similar resolution had been approved at the previous two AGMs.

Scor is periodically subject to rumours about a possible takeover, at a time of growing consolidation in the reinsurance sector. **Andrew Jack, Paris**

PHARMACEUTICALS

Teva slides to $25m in quarter

Teva, Israel's largest pharmaceuticals company, yesterday reported a sharp fall in net income for the first quarter as revenues from the US market slowed. The results coincide with plans by Teva to step up acquisitions and strategic partnerships, probably in Europe where sales already make up a fifth of total revenues.

First-quarter net income fell from $31.5m to $25.1m, while sales edged up from $268m to $269m. Sales to Israel, which account for 27 per cent of total revenues, fell 9 per cent; sales to the US, which account for 47 per cent of revenues, fell 2.4 per cent; sales to Europe surged nearly 16 per cent.

Analysts attributed the problem in the US to Teva's dependence on Clonazepam to generate sales while it awaits approval from the Food and Drug Administration for its other generic drugs. **Judy Dempsey, Jerusalem**

RIGHTS ISSUE

Telefónica claims success

Telefónica, Spain's main telecommunications group, yesterday claimed "complete success" for its Pta427bn ($2.84bn) rights issue, designed to fund a further investment drive in Latin America and the largest operation of its kind launched by a Spanish company.

It aimed for trading in the new shares to begin on May 19, immediately after payment of the final 1997 dividend on the old shares. It said 96 per cent of the shares on offer in the one-for-11 capital increase were accounted for by last Friday, immediately after the close of subscriptions, and underwriters had agreed to pre-pay the remainder. Final results on Wednesday were certain to show a 100 per cent take-up.

Telefónica's share price jumped 4.8 per cent on the Madrid market yesterday to close at Pta6,750. This compared with an issue price of Pta5,000. **David White, Madrid**

DRESDNER BANK

AMB sale to raise DM500m

Dresdner Bank said yesterday it would make a profit of DM500m ($283m) on the sale to Assicurazioni Generali, the Italian insurance company, of 9 per cent of AMB Aachener und Münchener Beteiligungs. The sale, which was expected, is part of the compromise under which Generali is acquiring Germany's AMB after losing out to Allianz, the biggest German insurance concern, in the battle to buy AGF of France. AGF is also selling its 33.5 per cent holding in AMB to Generali, which will buy Allianz's 8 per cent holding as well. Dresdner, in which Allianz has a 22 per cent stake, said Generali would pay a total of DM930m for the AMB shares. It said the sale was part of its policy of reducing non-bank shareholdings wherever possible. Dresdner will retain a stake of about 4 per cent in AMB. **Andrew Fisher, Frankfurt**

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This announcement appears as a matter of record only.

April 4, 1998

US$2,132,484,819

Telecom
NEW ZEALAND

Telecom Corporation of New Zealand Limited

436,970,670 Ordinary Shares

in the form of Instalment Receipts and Interim American Depositary Shares

Each American Depositary Share represents the right to receive 8 Ordinary Shares. Shares and ADSs offered in the global offering are to be paid for in two instalments. The First Instalment of NZ$4.70 and US$20.73 is payable on April 9, 1998 and the Final Instalment of NZ$4.15 and US$18.31 is payable by March 31, 1999 (the amount payable in U.S. dollars will depend upon the prevailing NZ$ to US$ exchange rate at the time the Final Instalment is due).

Joint Global Coordinators and Joint Bookrunners

Credit Suisse First Boston — Merrill Lynch & Co.

These securities were offered in New Zealand, Australia, North America and the Rest of the World.

New Zealand Offering

79,500,000 Ordinary Shares

Credit Suisse First Boston NZ Securities Limited — Merrill Lynch (New Zealand) Limited

SBC Warburg Dillon Read NZ Equities Limited

Australian Offering

59,600,000 Ordinary Shares

Credit Suisse First Boston Australia Limited — Merrill Lynch International (Australia) Limited

SBC Warburg Dillon Read Australia Limited

ABN AMRO Rothschild — Deutsche Morgan Grenfell Securities Australia Limited — Macquarie Underwriting Limited

Ord Minnett Corporate Finance Limited — J.B. Were & Son

North American Offering

96,117,413 Ordinary Shares

in the form of Instalment Receipts and Interim American Depositary Shares

Credit Suisse First Boston — Merrill Lynch & Co.

SBC Warburg Dillon Read Inc.

Bear, Stearns & Co. Inc. — Goldman, Sachs & Co. — Lehman Brothers

Rest of the World Offering

201,753,257 Ordinary Shares

in the form of Instalment Receipts and Interim American Depositary Shares

Credit Suisse First Boston — Merrill Lynch International

SBC Warburg Dillon Read

ABN AMRO Rothschild — Daiwa Europe Limited — Deutsche Morgan Grenfell

Banque Generale du Luxembourg S.A. — COMMERZBANK Aktiengesellschaft — HSBC Investment Banking

Société Générale — J.B. Were & Son

Hitachi to raise funds to help expansion

By Christopher Swann

Hitachi Credit UK, the financing company, is to securitise about £100m ($164m) of its loans over the coming year.

Securitisation, bonds issued and backed by cash-flow from a portfolio of assets, is intended to provide a source of cheap borrowing.

David Anthony, general manager, said Hitachi's high-quality credit book coupled with the AA rating of the company's Japanese parent, Hitachi Credit Corporation, would ensure an attractive rating for the paper.

"Our industry is innately credit hungry, and low cost borrowing is central to maintaining a competitive edge," he said.

The company said the funds would help launch an expansion into continental Europe. "I would have liked to have seen Britain joining monetary union before we moved," said Mr Anthony. "But we may have to go in first." The company has ruled out acquisitions as a way of building a European presence.

The news came as Hitachi reported pre-tax profits up 39 per cent to £7.8m for the year to March 31.

Turnover for the company, which is 65 per cent owned by its Japanese parent, rose 26 per cent to £73.9m.

The retail finance division, which trades under the name of Nova, increased volume by 47 per cent to £153m and gross profits by 31 per cent to £6.8m, thanks to strong demand for personal computer and home improvement financing.

Bad debt, at under 1 per cent of receivables, is well below the sector average of 1.5 per cent. Analysts are forecasting pre-tax profits for 1999 in excess of £9m.

David Anthony, left, with Masayoshi Hanabusa and Nobuyuki Sakamoto of Hitachi Credit

Thomson Travel valued at £1.1bn in flotation

By Scheherazade Daneshkhu, Leisure Industries Correspondent

Shares in Thomson Travel Group rose sharply on the first day of trading yesterday, closing 23½p up on the 170p offer price, announced yesterday, at 193½p.

This valued the company, which was floated in its entirety by the Thomson Corporation, the Canadian publishing group, at £1.9bn ($3.1bn), making it the largest London stock market flotation this year.

More than 111m shares – 11 per cent of the equity – exchanged hands, with virtually all the trading conducted by institutions.

The institutional offer was six times subscribed and the retail offer by three times, contributing to the decision to price the shares at the top end of the 140p-170p range after a global book-building exercise conducted by SBC Warburg Dillon Read.

Just over 62 per cent of the shares were allocated to institutions. All were scaled back. The Thomson family, which owns 70 per cent of Thomson Corporation, took 19.3 per cent.

The proportion set aside for retail investors was raised from 10 per cent to 17 per cent. Thomson employees were allocated just under 1 per cent.

All private investors were allocated a flat rate of 294 shares with a market value of £500.

Just under 1m private investors registered for the shares and more than 40 per cent of the 500,000 who applied, did so for the minimum £500 allocation. This entitled them to travel perks, including 10 per cent off Thomson holidays.

Paul Brett, chief executive of Thomson Travel, said the offer had been "extremely well-received".

He said Thomson's decision to extend the perks until the end of the year to all those that had registered had allayed discontent. Those who buy the minimum allocation in the market and hold them will be entitled to discounts after the end of December.

At 193½p, Thomson's shares are at a slight premium to the market and at a 10 per cent discount to Airtours, the second largest package holiday group.

COMMENT

UK rights issues

Half-way into its inquiry into UK underwriting practices, the Monopolies and Mergers Commission has already found two complex monopolies and 28 ways they may operate against the public interest. Clearly these are early days: the MMC is soliciting all points of view before a decision in November. But the implication is that the industry's recent attempts to reform itself – by putting some sub-underwriting out to competitive tender – are rightly seen as too little, too late. Asking the Office of Fair Trading to keep perma-watch – to ensure steps to erode the standard fee regime continue once the threat of action by competition authorities has receded – is one solution.

But lifting restrictions on the ways companies can raise equity capital would be better. A standard rights issue may often be the most appropriate way of raising money, but companies should also be free to use book-building, bought deals or deeply discounted, non-underwritten rights issues. To that end, the MMC suggestion that pre-emption rights could apply only to 15 per cent-plus capital increases as opposed to just 5 per cent now is sensible. That would produce greater flexibility and still leave really big issues subject to shareholder approval.

Venture capital

Yesterday saw another chunk of European manufacturing fall to private equity buyers. Is this the latest example of a wearisome trend for industrial quoted companies, outbid because their capital structure does not match the venture capitalist's capacity for higher gearing?

The rivalry between the types of bidders can be overstated. True, the past two years have seen a rise in venture capital activity. But industrial buyers have pulled off their own deals too, and sometimes bested the financial buyers: take Texas Utilities' bid for the Energy Group, or BMW's bid for Rolls-Royce Motor Cars.

Undoubtedly, trade buyers are facing more competition than before. Perhaps they could do more to emulate the more sophisticated financing techniques of their rivals. But in yesterday's case, the mooted industry bidder, David S Smith, would have had to make heroic assumptions about delivering synergies to top the rival bid. If the market turns, it will get its revenge on private equity groups desperate for their exit.

Esprit Telecom buys Plusnet in $178m deal

By Alan Cane

Esprit Telecom, one of the fastest growing of Europe's alternative telecommunications operators, is to strengthen its position in Germany with a DM315m ($178m) deal to acquire Plusnet, a subsidiary of Thyssen.

The final consideration could fall to DM260m or rise to DM370m depending on whether Plusnet achieves planned revenues of DM84.5m for the year to September 30.

Michael Potter, Esprit chairman, said Plusnet and Esprit had marked similarities. They will be combined into one operation in Germany under the control of Jurgen Hernichel, Plusnet managing director, and Bernd Buchholz, managing director of Esprit Telecom Deutschland.

The group will have about 1,400 customers and 150 staff in Germany.

It is understood competition for the operator was fierce with 11 bidders on the final short list.

David Oertle, Esprit chief executive, said the purchase was a unique opportunity to take a significant position in the German market.

"Plusnet's strong reputation and its growing German network and sales infrastructure, combined with Esprit Telecom's pan-European presence move us much closer to our goal of becoming Europe's number one alternative telecoms company," he said.

Esprit operates in 19 cities in eight European countries. It is constructing a pan-European broadband network using advanced SDH technology. The company said the first section of the network was live and would be formally launched this week. It expects to have completed the network by the end of 1999, providing voice, data, video and internet services.

Plusnet started its service in 1994, focusing on the upper end of the business market. It has two telecoms switches in place and is installing a further three. For the most part it leases transmission capacity from other operators, although it owns a 100km private network through the Rhein-Ruhr region. It will continue to provide Thyssen with telecoms services for three years.

Standard & Poor's, the credit rating agency, responded to yesterday's announcement by placing Esprit on "credit watch with negative implications" arguing that although the acquisition would strengthen Esprit's German presence it would increase its leverage and weaken its financial structure.

Esprit is quoted on Nasdaq and Easdaq. Salomon Smith Barney and SBC Warburg Dillon Read were financial advisers to Esprit and Thyssen respectively.

CWC plays down talks of more links

By Christopher Price

Cable & Wireless Communications, the UK's biggest cable operator, has held exploratory talks with other cable companies, but yesterday played down suggestions of imminent deals.

Graham Wallace, chief executive, said: "Companies are always talking to each other in this industry, and we will only be involved if it adds shareholder value." This included any potential tie-up with either the newly merged Telewest and General Cable, or NTL, which has just taken over Comcast.

The rash of mergers and acquisitions has been driven by the heavily indebted cable industry's need to cut costs and losses. This was underlined yesterday when CWC reported pre-tax losses of £49m ($82m) for the year to March 31, against profits of £80m last year, after a £200m restructuring charge. The figure reflected the cost of integrating Mercury, the domestic telecommunications arm of Cable and Wireless, with Nynex CableComms, Bell Cablemedia and Videotron, the cable companies. The four groups merged to form CWC in 1996.

CWC's operating profits rose by half to £281m. Total revenue rose 12 per cent to £2.3bn. Mr Wallace said the introduction of the Cable & Wireless brand, cost-cutting and a £400m network upgrade, would lift the rate of revenue growth this year.

Mr Wallace expected some smaller channels to close if the Independent Television Commission's proposals to force the unbundling of TV programmes by cable and satellite companies went ahead. He added that the ITC move, which would allow cable operators to offer subscribers smaller packages of channels, would "make a huge difference to our television penetration". The introduction of digital television, due early next year, would also affect the company's fortunes.

Television penetration rose from 19.1 to 20.3 per cent. The number of subscribers increased by a quarter to 780,000, while churn, the proportion failing to renew their subscriptions, was steady at 28.5 per cent.

The proportion of customers taking both television and telephony services rose from 47 to 54 per cent. There was a 36 per cent rise in the number of telecoms customers to 952,000.

NOTICE OF FINAL MEETING

Hambro International Finance B.V.

PROPOSAL FOR EARLY REDEMPTION OF LUF 800,000,000 7⅞ per cent. Guaranteed Notes due 2003

On 19th December 1997, the Board of Hambros PLC (the Guarantor of the above Notes) announced the disposal of Hambros Banking Group to Société Générale (the "Disposal") and its intention to distribute to shareholders the cash proceeds of the Disposal and Hambros PLC's controlling shareholdings in Hambro Countrywide PLC and Hambro Insurance Services Group PLC. The Disposal was completed on 27th February 1998. As a result, on 9th March 1998 Fitch IBCA withdrew the short term F2 and long term A- credit ratings of Hambros PLC.

On 17th April 1998, the Board of Hambros PLC announced the proposed distribution to shareholders of Hambros PLC's controlling shareholding in Hambro Countrywide PLC (the "Demerger Proposal"). The effect of the Demerger Proposal, if approved, will be to reduce the net assets and capital of Hambros PLC. Furthermore, on 30th April 1998, the Board announced that it intended to recommend cash offers that (subject to satisfaction or waiver of various pre-conditions) will be made by South African based Investec Group Limited, or one of its subsidiaries, to acquire the whole of the ordinary and preference share capital of Hambros PLC which will be in issue following implementation of the Demerger Proposal.

As part of the capital reorganisation and plans mentioned above, Hambros PLC wishes to terminate its guarantee obligations under the Notes.

On 31st March 1998, Hambro International Finance B.V. (the "Company"), a subsidiary of Hambros PLC, gave notice of a Noteholders' Meeting on 22nd April 1998 at which it proposed to seek Noteholders' approval to make an early redemption of all Notes outstanding on the terms described in the Extraordinary Resolution set out below.

The meeting of Noteholders on 22nd April 1998 was adjourned through lack of a quorum. The details of the adjourned meeting are set out in the Notice below. **This is likely to be the last opportunity for Noteholders to benefit from the potential premium being offered by the Company in order to compensate investors for early redemption of the Notes.** Paragraph (1) of the Extraordinary Resolution (set out below) describes the calculation for a premium likely to be paid to Noteholders on early redemption. This premium is calculated so that Noteholders could, subject to the market conditions, be in a position to reinvest the proceeds of early redemption in sufficient high quality bonds (such as securities issued by the Belgian Government) to achieve the same gross return to maturity as they would have earned if the Notes had remained outstanding.

For illustrative purposes only, if the Early Redemption Price (as described below) had been required to be determined and settled on 7th May 1998 (the latest practicable date prior to publication of this Notice) then each Note would have been redeemed at 114.53 per cent. of its principal amount together with accrued interest; the amount payable per LUF 50,000 principal amount of Notes (including accrued interest) would have been LUF 60,458.

For further details please contact RBC DS Global Markets, bond division (financial advisers to the Company) on telephone number +44 171 865 1361.

NOTICE OF ADJOURNED MEETING

of the holders of the outstanding

LUF 800,000,000 7⅞ per cent. Guaranteed Notes due 2003

of

Hambro International Finance B.V.

NOTICE IS HEREBY GIVEN that the Meeting of the holders (the "Noteholders") of the above Notes (the "Notes") convened by Hambro International Finance B.V. (the "Company") for 22nd April 1998 by the Notice dated 31st March 1998 and published in the Financial Times and the Luxemburger Wort and delivered to Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear system and Cedel Bank, société anonyme on that date was adjourned through lack of a quorum and that the adjourned Meeting will be held at the offices of Kredietbank S.A. Luxembourgeoise at 43 boulevard Royal, L-2955 Luxembourg on Tuesday, 26th May 1998 at 2.00 p.m. (Luxembourg time), for the purpose of considering and, if thought fit, passing the resolution set out below which will be proposed by the Company as an Extraordinary Resolution in accordance with the provisions of the fiscal agency agreement dated 12th July 1993 (the "Fiscal Agency Agreement") between the Company, Hambros PLC and Kredietbank S.A. Luxembourgeoise (the "Fiscal Agent") relating to the Notes.

Extraordinary Resolution

That this Meeting of the holders (the "Noteholders") of the outstanding LUF 800,000,000 7⅞ per cent. Guaranteed Notes due 2003 (the "Notes") of Hambro International Finance B.V. issued pursuant to a fiscal agency agreement dated 12th July 1993 (the "Fiscal Agency Agreement"), entered into between Hambro International Finance B.V., Hambros PLC and Kredietbank S.A. Luxembourgeoise (as Fiscal Agent) hereby:

(1) sanctions and approves the early repayment of all of the Notes (but not some only) on the Revised Redemption Date (as defined below) at the price described below together with interest accrued in accordance with the Terms and Conditions of the Notes, all subject to Condition 5 of the Notes. The price at which the Notes shall be repaid shall be the higher of par and the Early Redemption Price (as described below) (expressed as a percentage of each LUF 50,000 principal amount of the Notes rounded to three decimal places, 0.0005 being rounded upwards). The Early Redemption Price shall be ascertained by the Fiscal Agent as at 11.00 a.m. (Luxembourg time) on the Business Day following the day on which this Extraordinary Resolution is passed (the "Fixing Date"). The Early Redemption Price shall be determined as the sum of the discounted values of all future payments of principal and interest due on each LUF 50,000 principal amount of the Notes as at the Fixing Date (less accrued interest). The discount rate applied to each cashflow shall be interpolated from the yields to maturity on an annual basis of appropriate benchmark fixed income securities issued by the Belgian Government (the "BEM Government Yield Curve"). The relevant BEM Government Yield Curve shall be obtained from the REUTERS screen BEBMK at 11.00 a.m. Luxembourg time on the Fixing Date. Such early repayment shall occur on the date falling on the fourteenth calendar day following the day on which this Extraordinary Resolution is passed (the "Revised Redemption Date"), but where such day is not a Business Day, such repayment shall be postponed to the next Business Day. For the purposes of this Resolution, "Business Day" means a day on which banks are open for business in Luxembourg, Brussels and London; and

(2) sanctions every abrogation, modification, compromise or arrangement in respect of the rights of the Noteholders and the holders of the coupons appertaining thereto against Hambro International Finance B.V. involved in or resulting from the passing of this Resolution.

The Resolution, if passed, will enable the Company to make an early redemption of all the Notes outstanding at whichever price shall be the higher of par and the Early Redemption Price. The Early Redemption Price will be determined on the Business Day following the day on which the Extraordinary Resolution is passed, and the Notes will be redeemed on the date falling on the fourteenth calendar day after the Extraordinary Resolution is passed (or if that is not a Business Day, on the next Business Day thereafter). As soon as is practicable after the determination of the Early Redemption Price, the Company will notify the Noteholders of the price at which the Notes will be redeemed and the date of the Revised Redemption Date.

The attention of Noteholders is particularly drawn to the quorum required for the adjourned Meeting which is set out in paragraph 3 of "Voting and Quorum" below.

Copies of the Fiscal Agency Agreement (including the currently applicable Conditions of the Notes) and the Annual Report and Accounts for the year ended 31st March 1997 for the Company are available for inspection by Noteholders at the specified office of the Fiscal Agent set out below.

Voting and Quorum

1. A Noteholder wishing to attend and vote at the adjourned Meeting in person must produce at the adjourned Meeting either the Note(s), or a valid voting certificate or valid voting certificates issued by the Fiscal Agent relating to the Note(s), in respect of which he wishes to vote.
   A Noteholder not wishing to attend and vote at the adjourned Meeting in person may either deliver his Notes or voting certificate(s) to the person he wishes to attend on his behalf or give a voting instruction (on a voting instruction form available from the specified office of the Fiscal Agent set out below) instructing the Fiscal Agent to appoint a proxy and vote at the adjourned Meeting in accordance with his instructions.
   Notes may be deposited with the Fiscal Agent or (to the satisfaction of the Fiscal Agent) held to its order or under its control by Cedel Bank, société anonyme or Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear system, or any other person approved by it, for the purpose of obtaining voting certificates, giving voting instructions in respect of the relative Meeting or obtaining proxies, not later than 48 hours before the time appointed for holding the adjourned Meeting. Notes so deposited or held will not be released until the earlier of the conclusion of the adjourned Meeting, and the surrender of the voting certificate(s) or, not less than 72 hours before the time for which the adjourned Meeting is convened, the voting instruction receipt(s) issued in respect thereof.
2. Voting instructions given in respect of the Meeting convened for 22nd April 1998 will be valid for the adjourned Meeting provided that no intimation in writing of revocation or amendment of the voting instructions is received from the Fiscal Agent or by the Chairman, in each case not less than 48 hours before the commencement of the adjourned Meeting.
3. The quorum required at the adjourned Meeting is two or more persons present in person holding Notes or voting certificates or being proxies whatever the principal amount of the Notes so held or represented.
4. Every question submitted to the adjourned Meeting will be decided on a show of hands unless a poll is duly demanded by the Chairman of the adjourned Meeting or the Company or by one or more persons holding one or more Notes or voting certificates or being proxies and holding or representing in the aggregate not less than one-fiftieth part of the principal amount of the Notes for the time being outstanding. On a show of hands every person who is present in person and produces a Note or voting certificate or is a proxy shall have one vote. On a poll every person who is so present shall have one vote in respect of each LUF 50,000 principal amount of Notes so produced or represented by the voting certificate so produced or in respect of which he is a proxy.
5. To be passed, the Extraordinary Resolution requires a majority in favour consisting of not less than three-fourths of the votes cast. If passed, the Extraordinary Resolution will be binding on all the Noteholders, whether or not present at such adjourned Meeting, and upon all the holders of the Coupons appertaining to the Notes.

Fiscal and Principal Paying Agent
Kredietbank S.A. Luxembourgeoise
43, boulevard Royal
L-2955 Luxembourg

Hambro International Finance B.V.

12th May 1998

NOTICE OF FINAL MEETING

Hambro International Finance B.V.

PROPOSAL FOR EARLY REDEMPTION OF LUF 800,000,000 7⅛ per cent. Guaranteed Notes due 2004

On 19th December 1997, the Board of Hambros PLC (the Guarantor of the above Notes) announced the disposal of Hambros Banking Group to Société Générale (the "Disposal") and its intention to distribute to shareholders the cash proceeds of the Disposal and Hambros PLC's controlling shareholdings in Hambro Countrywide PLC and Hambro Insurance Services Group PLC. The Disposal was completed on 27th February 1998. As a result, on 9th March 1998 Fitch IBCA withdrew the short term F2 and long term A- credit ratings of Hambros PLC.

On 17th April 1998, the Board of Hambros PLC announced the proposed distribution to shareholders of Hambros PLC's controlling shareholding in Hambro Countrywide PLC (the "Demerger Proposal"). The effect of the Demerger Proposal, if approved, will be to reduce the net assets and capital of Hambros PLC. Furthermore, on 30th April 1998, the Board announced that it intended to recommend cash offers that (subject to satisfaction or waiver of various pre-conditions) will be made by South African based Investec Group Limited, or one of its subsidiaries, to acquire the whole of the ordinary and preference share capital of Hambros PLC which will be in issue following implementation of the Demerger Proposal.

As part of the capital reorganisation and plans mentioned above, Hambros PLC wishes to terminate its guarantee obligations under the Notes.

On 31st March 1998, Hambro International Finance B.V. (the "Company"), a subsidiary of Hambros PLC, gave notice of a Noteholders' Meeting on 22nd April 1998 at which it proposed to seek Noteholders' approval to make an early redemption of all Notes outstanding on the terms described in the Extraordinary Resolution set out below.

The meeting of Noteholders on 22nd April 1998 was adjourned through lack of a quorum. The details of the adjourned meeting are set out in the Notice below. **This is likely to be the last opportunity for Noteholders to benefit from the potential premium being offered by the Company in order to compensate investors for early redemption of the Notes.** Paragraph (1) of the Extraordinary Resolution (set out below) describes the calculation for a premium likely to be paid to Noteholders on early redemption. This premium is calculated so that Noteholders could, subject to the market conditions, be in a position to reinvest the proceeds of early redemption in sufficient high quality bonds (such as securities issued by the Belgian Government) to achieve the same gross return to maturity as they would have earned if the Notes had remained outstanding.

For illustrative purposes only, if the Early Redemption Price (as described below) had been required to be determined and settled on 7th May 1998 (the latest practicable date prior to publication of this Notice) then each Note would have been redeemed at 111.95 per cent. of its principal amount together with accrued interest; the amount payable per LUF 50,000 principal amount of Notes (including accrued interest) would have been LUF 56,758.

For further details please contact RBC DS Global Markets, bond division (financial advisers to the Company) on telephone number +44 171 865 1361.

NOTICE OF ADJOURNED MEETING

of the holders of the outstanding

LUF 800,000,000 7⅛ per cent. Guaranteed Notes due 2004

of

Hambro International Finance B.V.

NOTICE IS HEREBY GIVEN that the Meeting of the holders (the "Noteholders") of the above Notes (the "Notes") convened by Hambro International Finance B.V. (the "Company") for 22nd April 1998 by the Notice dated 31st March 1998 and published in the Financial Times and the Luxemburger Wort and delivered to Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear system and Cedel Bank, société anonyme on that date was adjourned through lack of a quorum and that the adjourned Meeting will be held at the offices of Kredietbank S.A. Luxembourgeoise at 43 boulevard Royal, L-2955 Luxembourg on Tuesday, 26th May 1998 at 2.45 p.m. (Luxembourg time), or at such time thereafter as the adjourned Meeting convened in respect of the LUF 800,000,000 7⅞ per cent. Guaranteed Notes due 2003 of the Company shall have been concluded, for the purpose of considering and, if thought fit, passing the resolution set out below which will be proposed by the Company as an Extraordinary Resolution in accordance with the provisions of the fiscal agency agreement dated 15th February 1994 (the "Fiscal Agency Agreement") between the Company, Hambros PLC and Kredietbank S.A. Luxembourgeoise (the "Fiscal Agent") relating to the Notes.

Extraordinary Resolution

That this Meeting of the holders (the "Noteholders") of the outstanding LUF 800,000,000 7⅛ per cent. Guaranteed Notes due 2004 (the "Notes") of Hambro International Finance B.V. issued pursuant to a fiscal agency agreement dated 15th February 1994 (the "Fiscal Agency Agreement"), entered into between Hambro International Finance B.V., Hambros PLC and Kredietbank S.A. Luxembourgeoise (as Fiscal Agent) hereby:

(1) sanctions and approves the early repayment of all of the Notes (but not some only) on the Revised Redemption Date (as defined below) at the price described below together with interest accrued in accordance with the Terms and Conditions of the Notes, all subject to Condition 5 of the Notes. The price at which the Notes shall be repaid shall be the higher of par and the Early Redemption Price (as described below) (expressed as a percentage of each LUF 50,000 principal amount of the Notes rounded to three decimal places, 0.0005 being rounded upwards). The Early Redemption Price shall be ascertained by the Fiscal Agent as at 11.00 a.m. (Luxembourg time) on the Business Day following the day on which this Extraordinary Resolution is passed (the "Fixing Date"). The Early Redemption Price shall be determined as the sum of the discounted values of all future payments of principal and interest due on each LUF 50,000 principal amount of the Notes as at the Fixing Date (less accrued interest). The discount rate applied to each cashflow shall be interpolated from the yields to maturity on an annual basis of appropriate benchmark fixed income securities issued by the Belgian Government (the "BEM Government Yield Curve"). The relevant BEM Government Yield Curve shall be obtained from the REUTERS screen BEBMK at 11.00 a.m. Luxembourg time on the Fixing Date. Such early repayment shall occur on the date falling on the fourteenth calendar day following the day on which this Extraordinary Resolution is passed (the "Revised Redemption Date"), but where such day is not a Business Day, such repayment shall be postponed to the next Business Day. For the purposes of this Resolution, "Business Day" means a day on which banks are open for business in Luxembourg, Brussels and London; and

(2) sanctions every abrogation, modification, compromise or arrangement in respect of the rights of the Noteholders and the holders of the coupons appertaining thereto against Hambro International Finance B.V. involved in or resulting from the passing of this Resolution.

The Resolution, if passed, will enable the Company to make an early redemption of all the Notes outstanding at whichever price shall be the higher of par and the Early Redemption Price. The Early Redemption Price will be determined on the Business Day following the day on which the Extraordinary Resolution is passed, and the Notes will be redeemed on the date falling on the fourteenth calendar day after the Extraordinary Resolution is passed (or if that is not a Business Day, on the next Business Day thereafter). As soon as is practicable after the determination of the Early Redemption Price, the Company will notify the Noteholders of the price at which the Notes will be redeemed and the date of the Revised Redemption Date.

The attention of Noteholders is particularly drawn to the quorum required for the adjourned Meeting which is set out in paragraph 3 of "Voting and Quorum" below.

Copies of the Fiscal Agency Agreement (including the currently applicable Conditions of the Notes) and the Annual Report and Accounts for the year ended 31st March 1997 for the Company are available for inspection by Noteholders at the specified office of the Fiscal Agent set out below.

Voting and Quorum

1. A Noteholder wishing to attend and vote at the adjourned Meeting in person must produce at the adjourned Meeting either the Note(s), or a valid voting certificate or valid voting certificates issued by the Fiscal Agent relating to the Note(s), in respect of which he wishes to vote.
   A Noteholder not wishing to attend and vote at the adjourned Meeting in person may either deliver his Notes or voting certificate(s) to the person he wishes to attend on his behalf or give a voting instruction (on a voting instruction form available from the specified office of the Fiscal Agent set out below) instructing the Fiscal Agent to appoint a proxy and vote at the adjourned Meeting in accordance with his instructions.
   Notes may be deposited with the Fiscal Agent or (to the satisfaction of the Fiscal Agent) held to its order or under its control by Cedel Bank, société anonyme or Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear system, or any other person approved by it, for the purpose of obtaining voting certificates, giving voting instructions in respect of the relative Meeting or obtaining proxies, not later than 48 hours before the time appointed for holding the adjourned Meeting. Notes so deposited or held will not be released until the earlier of the conclusion of the adjourned Meeting, and the surrender of the voting certificate(s) or, not less than 72 hours before the time for which the adjourned Meeting is convened, the voting instruction receipt(s) issued in respect thereof.
2. Voting instructions given in respect of the Meeting convened for 22nd April 1998 will be valid for the adjourned Meeting provided that no intimation in writing of revocation or amendment of the voting instructions is received from the Fiscal Agent or by the Chairman, in each case not less than 48 hours before the commencement of the adjourned Meeting.
3. The quorum required at the adjourned Meeting is two or more persons present in person holding Notes or voting certificates or being proxies whatever the principal amount of the Notes so held or represented.
4. Every question submitted to the adjourned Meeting will be decided on a show of hands unless a poll is duly demanded by the Chairman of the adjourned Meeting or the Company or by one or more persons holding one or more Notes or voting certificates or being proxies and holding or representing in the aggregate not less than one-fiftieth part of the principal amount of the Notes for the time being outstanding. On a show of hands every person who is present in person and produces a Note or voting certificate or is a proxy shall have one vote. On a poll every person who is so present shall have one vote in respect of each LUF 50,000 principal amount of Notes so produced or represented by the voting certificate so produced or in respect of which he is a proxy.
5. To be passed, the Extraordinary Resolution requires a majority in favour consisting of not less than three-fourths of the votes cast. If passed, the Extraordinary Resolution will be binding on all the Noteholders, whether or not present at such adjourned Meeting, and upon all the holders of the Coupons appertaining to the Notes.

Fiscal and Principal Paying Agent
Kredietbank S.A. Luxembourgeoise
43, boulevard Royal
L-2955 Luxembourg

Hambro International Finance B.V.

12th May 1998

NOTICE OF FINAL MEETING

Hambro International Finance B.V.

PROPOSAL FOR EARLY REDEMPTION OF LUF 600,000,000 9 per cent. Guaranteed Notes due 2002

On 19th December 1997, the Board of Hambros PLC (the Guarantor of the above Notes) announced the disposal of Hambros Banking Group to Société Générale (the "Disposal") and its intention to distribute to shareholders the cash proceeds of the Disposal and Hambros PLC's controlling shareholdings in Hambro Countrywide PLC and Hambro Insurance Services Group PLC. The Disposal was completed on 27th February 1998. As a result, on 9th March 1998 Fitch IBCA withdrew the short term F2 and long term A- credit ratings of Hambros PLC.

On 17th April 1998, the Board of Hambros PLC announced the proposed distribution to shareholders of Hambros PLC's controlling shareholding in Hambro Countrywide PLC (the "Demerger Proposal"). The effect of the Demerger Proposal, if approved, will be to reduce the net assets and capital of Hambros PLC. Furthermore, on 30th April 1998, the Board announced that it intended to recommend cash offers that (subject to satisfaction or waiver of various pre-conditions) will be made by South African based Investec Group Limited, or one of its subsidiaries, to acquire the whole of the ordinary and preference share capital of Hambros PLC which will be in issue following implementation of the Demerger Proposal.

As part of the capital reorganisation and plans mentioned above, Hambros PLC wishes to terminate its guarantee obligations under the Notes.

On 31st March 1998, Hambro International Finance B.V. (the "Company"), a subsidiary of Hambros PLC, gave notice of a Noteholders' Meeting on 22nd April 1998 at which it proposed to seek Noteholders' approval to make an early redemption of all Notes outstanding on the terms described in the Extraordinary Resolution set out below.

The meeting of Noteholders on 22nd April 1998 was adjourned through lack of a quorum. The details of the adjourned meeting are set out in the Notice below. **This is likely to be the last opportunity for Noteholders to benefit from the potential premium being offered by the Company in order to compensate investors for early redemption of the Notes.** Paragraph (1) of the Extraordinary Resolution (set out below) describes the calculation for a premium likely to be paid to Noteholders on early redemption. This premium is calculated so that Noteholders could, subject to the market conditions, be in a position to reinvest the proceeds of early redemption in sufficient high quality bonds (such as securities issued by the Belgian Government) to achieve the same gross return to maturity as they would have earned if the Notes had remained outstanding.

For illustrative purposes only, if the Early Redemption Price (as described below) had been required to be determined and settled on 7th May 1998 (the latest practicable date prior to publication of this Notice) then each Note would have been redeemed at 115.60 per cent. of its principal amount together with accrued interest; the amount payable per LUF 50,000 principal amount of Notes (including accrued interest) would have been LUF 58,262.

For further details please contact RBC DS Global Markets, bond division (financial advisers to the Company) on telephone number +44 171 865 1361.

NOTICE OF ADJOURNED MEETING

of the holders of the outstanding

LUF 600,000,000 9 per cent. Guaranteed Notes due 2002

of

Hambro International Finance B.V.

NOTICE IS HEREBY GIVEN that the Meeting of the holders (the "Noteholders") of the above Notes (the "Notes") convened by Hambro International Finance B.V. (the "Company") for 22nd April 1998 by the Notice dated 31st March 1998 and published in the Financial Times and the Luxemburger Wort and delivered to Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear system and Cedel Bank, société anonyme on that date was adjourned through lack of a quorum and that the adjourned Meeting will be held at the offices of Kredietbank S.A. Luxembourgeoise at 43 boulevard Royal, L-2955 Luxembourg on Tuesday, 26th May 1998 at 3.30 p.m. (Luxembourg time), or at such time thereafter as the adjourned Meeting convened in respect of the LUF 800,000,000 7⅛ per cent. Guaranteed Notes due 2004 of the Company shall have been concluded, for the purpose of considering and, if thought fit, passing the resolution set out below which will be proposed by the Company as an Extraordinary Resolution in accordance with the provisions of the fiscal agency agreement dated 31st March 1992 (the "Fiscal Agency Agreement") between the Company, Hambros PLC, Banque Indosuez Luxembourg S.A. (now known as Crédit Agricole Indosuez Luxembourg) (the "Fiscal Agent") and Crédit Lyonnais Luxembourg S.A. (with the "Fiscal Agent") together "Paying Agents") relating to the Notes.

Extraordinary Resolution

That this Meeting of the holders (the "Noteholders") of the outstanding LUF 600,000,000 9 per cent. Guaranteed Notes due 2002 (the "Notes") of Hambro International Finance B.V. issued pursuant to a fiscal agency agreement dated 31st March 1992 (the "Fiscal Agency Agreement"), entered into between Hambro International Finance B.V., Hambros PLC, Banque Indosuez Luxembourg S.A. (now known as Crédit Agricole Indosuez Luxembourg) (as Fiscal Agent) and Crédit Lyonnais Luxembourg S.A. hereby:

(1) sanctions and approves the early repayment of all of the Notes (but not some only) on the Revised Redemption Date (as defined below) at the price described below together with interest accrued in accordance with the Terms and Conditions of the Notes, all subject to Condition 5 of the Notes. The price at which the Notes shall be repaid shall be the higher of par and the Early Redemption Price (as described below) (expressed as a percentage of each LUF 50,000 principal amount of the Notes rounded to three decimal places, 0.0005 being rounded upwards). The Early Redemption Price shall be ascertained by the Fiscal Agent as at 11.00 a.m. (Luxembourg time) on the Business Day following the day on which this Extraordinary Resolution is passed (the "Fixing Date"). The Early Redemption Price shall be determined as the sum of the discounted values of all future payments of principal and interest due on each LUF 50,000 principal amount of the Notes as at the Fixing Date (less accrued interest). The discount rate applied to each cashflow shall be interpolated from the yields to maturity on an annual basis of appropriate benchmark fixed income securities issued by the Belgian Government (the "BEM Government Yield Curve"). The relevant BEM Government Yield Curve shall be obtained from the REUTERS screen BEBMK at 11.00 a.m. Luxembourg time on the Fixing Date. Such early repayment shall occur on the date falling on the fourteenth calendar day following the day on which this Extraordinary Resolution is passed (the "Revised Redemption Date"), but where such day is not a Business Day, such repayment shall be postponed to the next Business Day. For the purposes of this Resolution, "Business Day" means a day on which banks are open for business in Luxembourg, Brussels and London; and

(2) sanctions every abrogation, modification, compromise or arrangement in respect of the rights of the Noteholders and the holders of the coupons appertaining thereto against Hambro International Finance B.V. involved in or resulting from the passing of this Resolution.

The Resolution, if passed, will enable the Company to make an early redemption of all the Notes outstanding at whichever price shall be the higher of par and the Early Redemption Price. The Early Redemption Price will be determined on the Business Day following the day on which the Extraordinary Resolution is passed, and the Notes will be redeemed on the date falling on the fourteenth calendar day after the Extraordinary Resolution is passed (or if that is not a Business Day, on the next Business Day thereafter). As soon as is practicable after the determination of the Early Redemption Price, the Company will notify the Noteholders of the price at which the Notes will be redeemed and the date of the Revised Redemption Date.

The attention of Noteholders is particularly drawn to the quorum required for the adjourned Meeting which is set out in paragraph 3 of "Voting and Quorum" below.

Copies of the Fiscal Agency Agreement (including the currently applicable Conditions of the Notes) and the Annual Report and Accounts for the year ended 31st March 1997 for the Company are available for inspection by Noteholders at the specified office of the Fiscal Agent set out below.

Voting and Quorum

1. A Noteholder wishing to attend and vote at the adjourned Meeting in person must produce at the adjourned Meeting either the Note(s), or a valid voting certificate or valid voting certificates issued by a Paying Agent relating to the Note(s), in respect of which he wishes to vote.
   A Noteholder not wishing to attend and vote at the adjourned Meeting in person may either deliver his Notes or voting certificate(s) to the person he wishes to attend on his behalf or give a voting instruction (on a voting instruction form available from the specified offices of the Paying Agents set out below) instructing a Paying Agent to appoint a proxy and vote at the adjourned Meeting in accordance with his instructions.
   Notes may be deposited with either Paying Agent or (to the satisfaction of such Paying Agent) held to its order or under its control by Cedel Bank, société anonyme or Morgan Guaranty Trust Company of New York, Brussels office, as operator of the Euroclear system, or any other person approved by it, for the purpose of obtaining voting certificates, giving voting instructions in respect of the relative Meeting or obtaining proxies, not later than 48 hours before the time appointed for holding the adjourned Meeting. Notes so deposited or held will not be released until the earlier of the conclusion of the adjourned Meeting, and the surrender of the voting certificate(s) or, not less than 72 hours before the time for which the adjourned Meeting is convened, the voting instruction receipt(s) issued in respect thereof.
2. Voting instructions given in respect of the Meeting convened for 22nd April 1998 will be valid for the adjourned Meeting provided that no intimation in writing of revocation or amendment of the voting instructions is received from either Paying Agent or by the Chairman, in each case not less than 48 hours before the commencement of the adjourned Meeting.
3. The quorum required at the adjourned Meeting is two or more persons present in person holding Notes or voting certificates or being proxies whatever the principal amount of the Notes so held or represented.
4. Every question submitted to the adjourned Meeting will be decided on a show of hands unless a poll is duly demanded by the Chairman of the adjourned Meeting or the Company or by one or more persons holding one or more Notes or voting certificates or being proxies and holding or representing in the aggregate not less than one-fiftieth part of the principal amount of the Notes for the time being outstanding. On a show of hands every person who is present in person and produces a Note or voting certificate or is a proxy shall have one vote. On a poll every person who is so present shall have one vote in respect of each LUF 50,000 principal amount of Notes so produced or represented by the voting certificate so produced or in respect of which he is a proxy.
5. To be passed, the Extraordinary Resolution requires a majority in favour consisting of not less than three-fourths of the votes cast. If passed, the Extraordinary Resolution will be binding on all the Noteholders, whether or not present at such adjourned Meeting, and upon all the holders of the Coupons appertaining to the Notes.

Fiscal and Principal Paying Agent
Crédit Agricole Indosuez Luxembourg
39, allée Scheffer
L-2520 Luxembourg

Paying Agent
Crédit Lyonnais Luxembourg S.A.
26A, boulevard Royal,
L-2449 Luxembourg

Hambro International Finance B.V.

12th May 1998

Consolidation likely to follow a paper celebration

Jonathan Ford *on the future of the sector as Jefferson Smurfit's US unit merges with Stone Container*

Jefferson Smurfit, the Irish multinational packaging group, was celebrating yesterday. After five months of patient negotiation, it announced plans to merge its US affiliate with a rival, Stone Container, in a deal that will create the world's biggest paper-based packaging company.

The new group, Smurfit-Stone Container, will account for about 20 per cent of the US market for corrugated cardboard and 12 per cent for folding containers. It will have annual sales of more than $8bn (£4.9bn).

"We have said for several years that we wanted to expand in the US because we see it as the world's most attractive paper and packaging market," said Dermot Smurfit, deputy chairman. "This transaction fulfils that objective."

The triumphal tone is understandable. The deal solves a number of strategic problems for Smurfit that have held it back from expanding in the US and playing a part in the rationalisation of the paper industry there.

First, it lifts Smurfit-Stone into a commanding position in corrugated cardboard, where it can take the lead in cutting capacity to restore price stability.

Corrugated board prices collapsed between late 1995 and early last year because of overcapacity, but have crept back to $380 a ton from 1997's low of $280. But sentiment remains fragile – recent moves to increase prices by $40 to $420 a ton have twice been postponed.

Smurfit plans to slash the merged company's annual costs by $350m – which would increase group earnings per share by 20 per cent. Plant closures are expected to form an important part of this strategy.

Equally important, the deal restores to the Irish group the ability to control its destiny in the US, which has been complicated by its relationship with Morgan Stanley, the US investment bank.

When Smurfit acquired what became Jefferson Smurfit Corporation in the mid-1980s, the Irish group was too small to purchase it outright, so structured the deal as a management buy-out with Morgan Stanley as its equity partner.

This offered advantages in allowing Smurfit – which ended up with 46.5 per cent of the US affiliate – to avoid consolidating its heavy debts. But the lack of control has prevented it from making any strategic moves.

This situation has been compounded by Morgan Stanley's increasing impatience for an exit from the investment over the past two years.

'The history of this industry is that whenever something like this happens, it triggers a cascade of deals. I would expect a number of the other leading players to look very closely at their positions as a result.'

Under the deal, Smurfit has agreed to spend about $550m buying 20m shares, or 17 per cent, of the affiliate from Morgan Stanley – nearly half its 37 per cent stake.

Assuming the deal goes ahead, Smurfit will be by far the largest shareholder in Smurfit-Stone with 34 per cent. Morgan Stanley will be left with 9 per cent of the enlarged equity.

Smurfit plans to take a high-profile role in managing its new affiliate.

The Irish group is sending its finance director, Ray Curran, to be deputy chief executive officer with responsibility for integration. The scale of the task has not escaped analysts.

"Given the amount of work to be done in integrating Smurfit-Stone, I don't expect Smurfit to make further moves in the region for quite a while," said Charles Cara at Dresdner Kleinwort Benson.

The top priority in the short term will be to reduce debt. Following the merger, Stone-Smurfit's debt will be a heady $6bn - equivalent to nine times its forecast cash flow between now and 2000.

Although interest cover is 2.5 times, that could fall to just one in a downturn.

Mr Smurfit says the group intends to dispose of non-core subsidiaries to cut debt by $2.5bn.

Stone is expected to make the initial disposals, which could include the sale of its 25 per cent stake in Abitibi-Consolidated, the newsprint maker, for about $800m. It is also expected to sell two pulp mills in Arizona.

The Smurfit side of the merger is also expected to make some disposals, including its newsprint operations. Mr Smurfit said the group's timberlands operation – which owns about 1m acres of forests in the US – could be "monetised", thought to imply a demerger.

The Smurfit-Stone deal is expected to spark another round of consolidation in the US packaging industry.

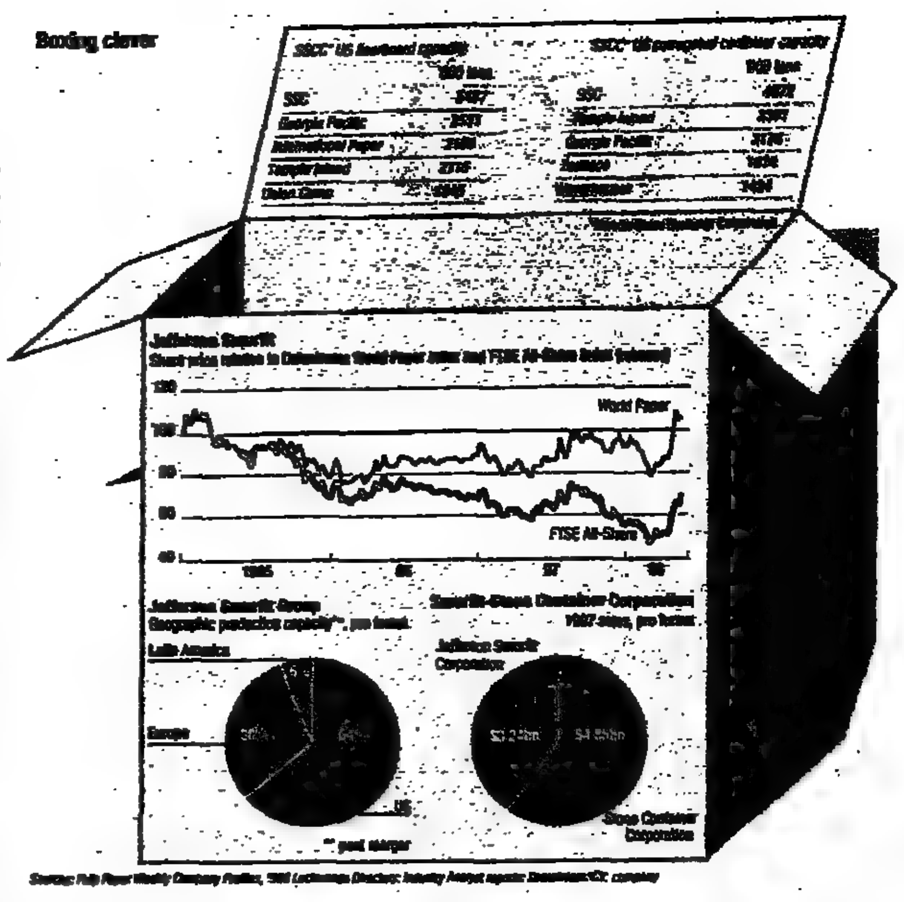
"The history of this industry is that whenever something like this happens, it triggers a cascade of deals," said Mr Cara. "I would expect a number of the other leading players to look very closely at their positions as a result."

Mr Smurfit says he would welcome such a development as further proof of the industry's new found commitment to shareholder value.

"At last we are beginning to see some of the big players in the industry – even the Scandinavians – saying that they have got to improve their returns," he says.

"It is about time for an industry that hasn't covered its cost of capital for seven out of the last 10 years."

Boxing clever



Scotia founder quits board after row

By Daniel Green

Dr David Horrobin, the founder of Scotia, the UK's oldest biotechnology company, has resigned as a non-executive director after trying to oust the man who succeeded him as chief executive, Dr Robert Dow.

According to Sir James McKinnon, Scotia's non-executive chairman, Dr Horrobin disagreed with the direction in which Dr Dow was taking the company and called for his removal.

Since taking over in January, Dr Dow has sharply cut the number of research programmes instigated under Dr Horrobin's leadership and appointed new senior staff.

Sir James, a tough former head of the UK gas regulator Ofgas, said: "When a non-executive seeks to remove a chief executive and the board disagrees, the non-executive should move on."

The only board member to agree with Dr Horrobin was Sherri Clarkson, his wife, said Sir James.

Scotia is one of the UK's most unusual biotech companies. The company based its technology on lipids, a component of some foods that plays an important role in the way cells work in the body.

The company survived in its early days through non-prescription sales of evening primrose oil under the Efamol brand, still an important part of the business.

But efforts to develop prescription drugs were continually thwarted by medical regulators, who demanded more rigorous demonstrations of the drugs' benefits than had been provided by the company. Dr Dow was appointed partly because of his experience in dealing with regulators.

In a statement, Scotia said yesterday: "The board believes that it is essential that all directors should support Dr Robert Dow, who was unanimously appointed chief executive on January 1 1998, his management team and his revised strategy for Scotia.

"Dr Horrobin, who first recommended Dr Dow to Scotia, far from offering his support sought to convince the board that it should remove Dr Dow from his position. In the light of the foregoing, the board requested the resignation of Dr Horrobin.

"The board wishes to endorse the changes that Dr Dow has instituted."

Dr Horrobin, who still controls a 17 per cent stake in Scotia, will also give up his role as a consultant to Scotia. He received £25,000 ($41,000) compensation for the loss of the consultancy, but nothing for leaving the non-executive post. His wife will stay on the board until the end of June.

He has a new company called Scarista which has a licensing deal with Scotia over lipid-based drugs intended to treat asthma and diseases of the central nervous system.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
API	6 mths to Apr 4	72	(70)	4.91♠	(6.08)	12.82	(15.59)	5.42	July 1	4.93	-	12.1
Batt Brothers	6 mths to Feb 28	23.1	(15.9)	1.51	(1.11)	7.46	(5.61)	2.05	July 28	1.9	-	8.75
C&W Comms	Yr to Mar 31	2,283	(2,036)	491♠	[illegible]	3.3L	(5.4)	-	-	-	-	-
DCC ♣	Yr to Mar 31 ⁂	703	(628)	36.5†	(35.47♥)	35.5†	(33.34)	6.08	July 2	[illegible]	9.8	8
Fairbriar	Yr to Dec 31	29.9	(22.5)	9.53	(3.32♠)	31.34	[illegible]	0.5	June 30	-	0.5	-
Glencar Mining ♣	Yr to Dec 31	-	(-)	0.104♠	(1.24♠)	0.15	(2.7L)	-	-	-	-	-
Hitachi Credit (UK)	Yr to Mar 31	75.9	(80.3)	7.81	(5.61)	14.6	(13.4)	3.85	July 23	-	5.55	-
Jordec Φ	6 mths to Mar 27	17.66	(14.96)	0.423	(0.204)	2.5†	(1.3)	-	-	-	-	-
Triad	Yr to Mar 31	32.2	(18.8)	8.61	(2.88)	17.78	(7.25)	4	July 7	2	6	3
Investment Trusts		**NAV (p)**		**Attributable Earnings (£m)**		**EPS (p)**		**Current payment (p)**	**Date of payment**	**Corresponding dividend**	**Total for year**	**Total last year**
Fleming Chinese	6 mths to Mar 31	98.9	(95.5)	0.087L	(0.15L)	0.14L	(0.25L)	-	-	-	-	-
F&C Eurotrust	6 mths to Mar 31	467.1	(342.7)	1.35L	(0.98L)	2.17L	(1.53L)	1.6✱	June 22	-	-	1.6
Mercury European	Yr to Mar 31	202.3	(145)	0.021	(0.018)	4.19	(3.47)	2	July 7	1.8	2.65	2.2

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ΦAim stock. ♣Irish currency. ⁂Comparatives restated. ✱Foreign income dividend.

EURO PRICES

EQUITIES

Europe follows Wall St higher

EUROPEAN OVERVIEW

By Martin Dickson, Financial Editor

Trans-European equity indices rose yesterday on the back of a strong early performance by Wall Street.

The FTSE Eurotop 300 index closed at 1,235.49, up 18.59 points or 1.53 per cent, while the Eurotop 100 index finished the day at 2,838.69, up 44.54 or 1.59 per cent. The Eurotop Ebloc 100, which tracks some of the leading companies from monetary union "in" countries, ended at 1,022.27, up 20.28 or 2.02 per cent.

Sentiment on both sides of the Atlantic was bolstered by news that two of the largest US local telecommunications companies, SBC Communications and Ameritech, were planning to merge. In Europe, markets were also helped by a strengthening of the dollar against the D-Mark and diminished fears of rising interest rates. German government bond prices ended slightly lower, but trading was thin and directionless.

Among individual sectors, some telecom equipment stocks were boosted by the SBC-Ameritech discussions. The Eurotop's electronic and electrical equipment index ended 3.4 per cent higher, with the A shares of mobile phone manufacturer Nokia upEcu 1.9 at Ecu 62.14. Alcatel Alsthom rose to Ecu 190.43, up Ecu 11.8, helped by a broker raising the target price.

In the same sector, Philips rose Ecu 3.9 to Ecu 90.32 on speculation it would sell its 75 per cent stake in music group Polygram to Seagram. Polygram closed up Ecu 2.2 at Ecu 46.22.

Automobile stocks continued to benefit from last week's merger agreement between Daimler-Benz and Chrysler, as well as yesterday's further announcement that Daimler was in talks with Nissan Motor of Japan to create a commercial vehicles alliance.

Daimler rose Ecu 1.2 to Ecu 101.35. Other strong performances came from Renault, up Ecu 2.3 to Ecu 47.66, and Peugeot, up Ecu 9.5 to Ecu 181.04.

Deutsche Bank, which has a large stake in Daimler, was also boosted by reports it was interested in buying branches of Union Bank of Switzerland and Swiss Bank Corporation being shed in their merger. It closed up Ecu 2.2 at Ecu 79.48.

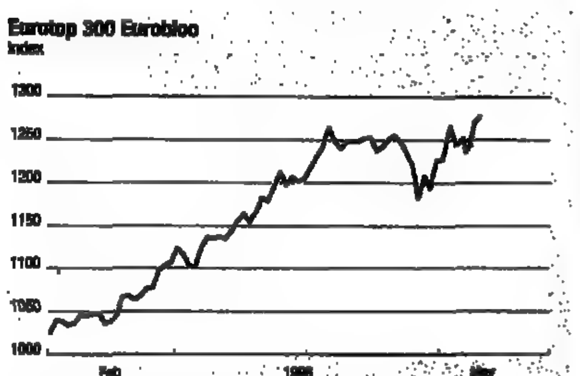
Other sectors which performed well included household goods and textiles, up 3.3 per cent, and oil exploration and production, up 3.41 per cent. Laggards included distribution, support services and water.

Meanwhile, Merrill Lynch's latest survey of European fund managers found the announcement earlier this month of a firm schedule for monetary union had sharply boosted the popularity of the euro.

Now 54 per cent of them ranked it their favourite currency, ahead of the dollar, while 63 per cent expected it to be "hard," the largest percentage since the question was first put in January 1997.

The Merrill survey, carried out by Gallup between May 4 and 7, said that 39 per cent felt bullish about European equities over the next three months. It found 69 per cent were optimistic on a 12-month view, up from 57 per cent the month before.

Eurotop 300 Eurobloc
Index



Source: FTSE International

FTSE Actuaries Share Indices — European series

Produced in conjunction with the Faculty and Institute of Actuaries

May 11 National & Regional Markets	Ecu Index	Day's %	change points	Yield gross %	xd adj ytd	Total retn (Ecu)
FTSE Eurotop 300	1235.49	+1.53	+18.59	1.90	10.80	1256.48
FTSE Eurotop 100	2838.69	+1.59	+44.54	1.97	7.55	1085.45
FTSE Ebloc 100	1022.27	+2.02	+20.28	1.57	2.67	1024.98
[illegible]						

FT EUROTOP MONTH EURO FUTURES (LIFFE)

[illegible]

OTHER INDICES

[illegible]

FTSE EUROTOP 300

[illegible]

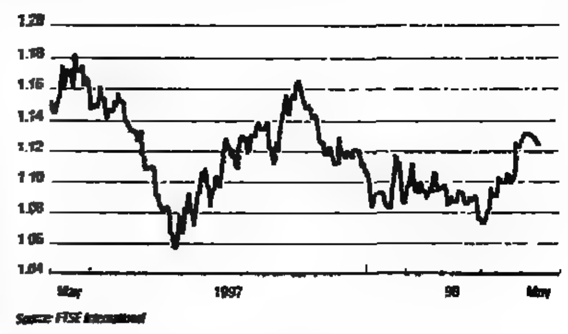
CURRENCIES & MONEY

FT SYNTHETIC EURO RATES

May 11	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Austria	ATS	14.088321	+0.0025	0.02	+0.0041	0.03
Belgium	BEF	41.241134	+0.0074	0.02	+0.0030	0.01
Czech Republic	CZK	36.600522	-0.1917	-0.52	+0.0835	0.23
Denmark	DKK	7.616398	+0.0005	0.01	-0.0087	-0.11
Finland	FIM	6.075444	+0.0006	0.01	+0.0067	0.11
France	FRF	6.702444	-0.0007	-0.01	+0.0014	0.02
Germany	DEM	1.998042	+0.0003	0.01	+0.0005	0.03
Greece	GRD	347.449522	-0.7377	-0.21	+0.1763	0.05
Hungary	HUF	236.154724	-0.3375	-0.14	+0.6787	0.29
Ireland	IEP	0.794553	-0.0012	-0.15	-0.0007	-0.09
Italy	ITL	1971.303707	-0.1470	-0.01	-1.4201	-0.07
Luxembourg	LUF	41.241134	+0.0074	0.02	+0.0030	0.01
Netherlands	NLG	2.252565	+0.0002	0.01	+0.0006	0.03
Norway	NOK	8.358278	+0.0009	0.01	+0.0615	0.74
Poland	PLN	[illegible]	-0.0008	-0.02	+0.0229	0.60
Portugal	PTE	204.855808	-0.2286	-0.11	+0.0218	0.01
Romania	ROL	9533.847453	-93.7616	-0.97	+147.0028	1.57
Russia	RUB	[illegible]	-0.0290	-0.42	+0.0105	0.15
Slovakia	SKK	38.411081	-0.1355	-0.35	-0.1773	-0.46
Spain	ESP	169.814449	+0.0035	0.00	-0.0799	-0.05
Sweden	SEK	8.580989	-0.0049	-0.06	-0.0457	-0.53
Switzerland	CHF	1.669338	-0.0000	0.00	-0.0018	-0.11
United Kingdom	GBP	0.690128	-0.0004	-0.06	+0.0167	2.48
ECU	ECU	1.015443	[illegible]	-0.05	+0.0034	0.34
Americas						
Brazil	BRL	1.280221	-0.0045	[illegible]	+0.0057	0.45
Canada	CAD	1.612524	-0.0086	-0.53	+0.0033	0.20
Mexico	MXN	9.525408	-0.0559	[illegible]	[illegible]	0.18
United States	USD	1.125270	-0.0047	-0.42	+0.0034	0.31
Pacific/Middle East/Africa						
Australia	AUD	1.772862	[illegible]	-0.04	+0.0311	1.79
Hong Kong	HKD	8.720277	-0.0367	-0.42	+0.0281	0.32
Japan	JPY	149.334541	-0.5432	-0.36	[illegible]	-0.05
Singapore	SGD	1.828081	[illegible]	[illegible]	+0.0546	3.08
South Africa	ZAR	5.696679	-0.0246	-0.42	+0.0163	0.29

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends.

Synthetic Euro against the dollar
$ per euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

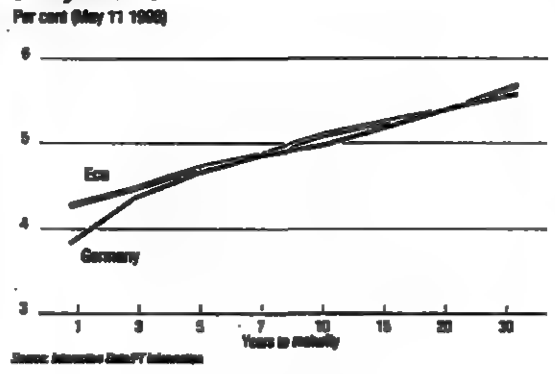
Bilateral conversion rates against the D-Mark

May 11	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward Int rate	Diff int rate v DEM
Austria	7.03552	7.0365	0.01	0.01	7.0376	3.84	0.02
Belgium	20.6255	20.6305	0.02	0.04	20.6363	3.86	0.04
France	3.35386	3.3528	-0.03	-0.03	3.3523	3.8	-0.02
Finland	[illegible]	3.0382	-0.03	-0.11	[illegible]	3.95	0.13
Ireland	0.402676	0.3974	-1.31	-1.18	0.4017	5.53	1.71
Italy	990.002	986.1244	-0.39	-0.29	991.1008	4.62	0.8
Luxembourg	20.6255	20.6305	0.02	0.04	20.6363	3.86	0.04
Netherlands	1.12674	1.1268	[illegible]	0.01	1.1269	3.83	0.01
Portugal	102.505	102.4824	-0.02	-0.01	102.7008	4.16	0.34
Spain	85.0722	84.9479	-0.15	-0.07	85.1677	4.23	0.41
Germany	1					3.82	

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3, forward rates are exchange rates to 31/12/98 interpolated from market quotes, forward interest rates are those implied by these forward exchange rates. Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98. DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

Bond yield curve
Per cent (May 11 1998)



Source: Interactive Data/FT Information

GOVERNMENT BOND SPREADS vs ECU

[illegible]

EUROZONE CORPORATE BONDS

May 11	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible Issues								
Belgium (Kingdom of)	03/08	5.750	N/A	104.800	5.12	0.00	0.14	0.02
France (Rep of)	04/08	5.250	N/A	101.540	5.05	0.02	0.15	-0.05
Italy (Rep of)	05/08	5.000	AA	98.650	5.17	0.01	0.08	0.07
[illegible]								

EUROZONE CREDIT SPREADS vs ECU

[illegible]

Prices weaker in muted trading

GOVERNMENT BONDS

By Jeremy Grant and Vincent Boland in London and John Labate in New York

Markets began the week in indecisive fashion yesterday, closing slightly lower in muted trading as investors eyed US economic data due later in the week, central bank activity in Europe, and a heavy schedule of corporate issues.

European markets opened weaker and retained the downward bias throughout the session, though they ended off the day's lows. An interest rate cut in Portugal did little more than confirm the trend towards convergence of rates throughout the euro zone, though there was more interest in the Bundesbank's council meeting this week and the minutes of the Bank of England's April meeting.

The week's main news will be US retail sales and inflation figures, which should shed more light on where interest rates are headed.

Ahead of those figures, US TREASURIES fell in quiet trading, sending the long bond yield back above 6 per cent. By early afternoon the 30-year Treasury bond, the benchmark for long term interest rates, was down ⅜ to 101½, sending the yield up to 6.022 per cent.

Short-term issues also moved lower, with the two-year note dropping ⅛ to 99⅞, yielding 5.641 per cent, and the 10-year note falling ⅞ to 99⅞, yielding 5.757 per cent.

On Friday bonds weakened on the news of the lowest unemployment rate, at 4.3 per cent, since 1970.

"The low unemployment rate has to give people pause as to the Fed's next move, but it's doubtful they'll do anything in May with inflation so low," said Kevin Logan, senior market economist at Dresdner Kleinwort Benson. He said any concern in the market about this week's figures related to retail sales, which he expected to rise 0.5 per cent due to strong car sales and consumer confidence.

GERMAN BUNDS show little sign that they are prepared to break out of their recent range-trading pattern. The June future settled 0.04 lower at 106.83 after hovering in a 19-point range throughout the day. By late afternoon some 160,000 contracts had been traded on the DTB, representing very low activity.

German inflation data came in broadly as expected for April, showing an annual rate of 1.4 per cent, but had little impact. The yield on the benchmark 10-year bund was 4.985 per cent in late trading.

Giorgio Radaelli, head of European market research at First Chicago NBD, said bunds were "quite expensive to very expensive" on a relative basis, with German short rates almost certainly heading higher later in the year.

"Relative to the value of Treasury yields, bunds are actually quite expensive, irrespective of whether the Bundesbank is going to raise interest rates," he said.

Analysts said the Bundesbank would almost certainly not raise rates at this week's meeting, with the consensus for a rise in the second half.

"The questions are when and by how much, and what it will mean for the yield curve," Mr Radaelli said.

Other markets were also a touch easier, tracking bunds closely, with losses in the single digits on a trickle of turnover.

UK GILTS barely stirred, in spite of the release of industrial production figures that confirmed the UK manufacturing sector is technically in recession. Investors were sidelined ahead of the Bank of England's quarterly inflation report, due on Wednesday, and average earnings data.

The minutes of the last monetary policy committee meeting will also show how far the MPC's thinking on interest rates has changed since it moved towards a tightening bias.

"Everyone's starving for news. We've still got a tightening bias in the MPC and until that changes it's difficult to see gilts going anywhere in any style," said Andrew Roberts, gilts strategist at UBS.

The June gilt future, quoted in decimals yesterday for the first time, settled at 108.42, a fall of 0.02 on Friday's settlement level of 108 7/16, with 33,000 contracts traded on Liffe. The spread between 10-year gilts and bunds widened one basis point to 97 points.

Korean bank ratings lowered

By Jeremy Grant

Moody's Investors Service has downgraded the long-term debt ratings of Korea Development Bank and two other state-owned banks to Ba2 from Ba1 because of the "continuing deterioration of the financial condition" of the government's main policy banks.

Although the move came as little surprise - the agency had placed the senior debt ratings of KDB and Industrial Bank of Korea on review for possible downgrade last year - it could add to the cost of borrowing by state-run banks and delay new issues.

The downgrade also included a third bank, Export-Import Bank of Korea, which was expected to issue up to $1bn in overseas bonds this year.

Yield spreads on Korean bonds widened yesterday, with the spread on the five-year KDB bond rising by 30 basis points to 420 over five-year US Treasuries.

Moody's said growing problems in South Korea's industrial base had undermined the policy banks' financial strength and "significant doubts" remained over the feasibility of restructuring the banking system without extensive government intervention.

It also lowered the senior debt ratings and bank financial strength ratings of 16 other commercial banks.

● Moody's said it would review Venezuela's Ba2 sovereign rating for possible downgrade after assessing the effects on the economy of the recent fall in the crude oil price. The review also affects the Ba3 rated long-term deposits of six Venezuelan banks.

Multi-tranche bond issue for Slovakia

By Kevin Done, East Europe Correspondent

The Slovak government is expected to approve today a landmark eurobond issue for up to $1bn to cover its 1998 foreign borrowing needs.

Slovakia is expected to have to pay a heavy premium to attract investors to the issue, however, reflecting the political and economic problems it has suffered in recent months, which have caused international credit rating agencies to reassess Slovak risk.

The unusual multi-tranche bond will be issued in US dollars, Japanese yen and D-Marks, with Nomura, the Japanese investment bank, as global co-ordinator and lead manager.

Chase Manhattan will be joint lead manager for the US dollar notes with Commerzbank as joint lead manager for the D-Mark tranche.

Slovakia is expected to raise $300m to $500m, DM300m to DM500m and Y15bn in the three tranches. The US dollar and D-Mark portions will have maturities of five years and the Japanese yen tranche a maturity of three years.

Moody's, one of the leading US credit rating agencies, downgraded Slovakia at the end of March from its investment grade of Baa3 to a speculative grade Ba1.

Last month Standard & Poor's, the rival US agency, revised its outlook for Slovakia from stable to negative and warned that it could downgrade its investment grade BBB- rating if there was no improvement in political and economic conditions in Slovakia.

Reflecting investor concerns, the US dollar tranche (issued under SEC Rule 144a, making it eligible for sale to qualified US institutional buyers) is expected to be priced to yield 360 to 370 basis points over US Treasuries, and the D-Mark tranche to yield 350 to 360 points over German bunds.

By contrast Hungary, which is also rated BBB- by S&P, recently succeeded in issuing a five-year, $300m eurobond priced at only 81 basis points over US Treasury notes in a transaction led by ABN Amro and Salomon Smith Barney.

In investor presentations in London, Frankfurt, Zurich and the US in recent days, Slovak officials have sought to allay concerns about the country's development.

Tatiana Silhankova, state secretary at the ministry of finance, said in London the credit rating agencies' actions had been mistimed.

The problems of the rising twin deficits in the current account of the balance of payments and in the public sector budget had already been addressed, she said, dismissing fears of a devaluation of the Slovak koruna.

The government had also withdrawn its plans to change legislation regarding the National Bank of Slovakia, which had triggered worries about the independence of the central bank.

Political tension is rising in Slovakia ahead of the general election due in September, with government and opposition parties in conflict over electing a successor to former president Michal Kovac, whose term of office ended in March.

Mortgage issue from Deutsche

INTERNATIONAL BONDS

By Edward Luce

Deutsche Bank last night kicked off the much-awaited German mortgage-backed bond market with a DM1.4bn securitisation. The six-tranche bond, which will be priced today, comes a full year after the German regulatory authorities gave explicit approval for German commercial banks to securitise their mortgages.

Deutsche Bank, which acted as its own sole lead manager, said it expected to bring further similar transactions given the strong demand shown for this deal.

It has DM55bn in residential and commercial mortgages on its balance sheet, most of which are 100 per cent risk-weighted assets.

Selling part of its mortgage portfolio will enable Deutsche Bank to free regulatory capital for lending purposes. It will also enable the bank to improve its return on capital.

"Deutsche Bank is very keen to manage its balance sheet more to make its capital work harder," said Tamara Adler, head of the European securitisation group. "This type of transaction is likely to become much more common in the German market."

German commercial banks are also reported to be looking at securitising other balance sheet assets, such as credit card receivables and traditional loans. The German banking sector on average achieves a much lower return on capital than its US counterpart.

An official said about 60 per cent of the deal went to non-German buyers with particularly strong demand from the US. Buyers included hedge funds, banks, building societies and funds specialising in floating-rate paper. The tranches ranged from AAA rated to unrated with two floating-rate stripped portions and four based on underlying fixed-rate residential mortgages.

● Euroclear, Europe's leading securities clearing and settlements house, said it was postponing the introduction of a new real-time settlement system until after European monetary union. It gave no specific reason for the postponement, but said the problems had been "clearly identified".

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
■ US DOLLARS							
DePfa Bank	250	6.00	99.78R	May 2001	0.20R	+40(W 3yr)	Daiwa Europe
■ D-MARKS							
Haus 1998-1(a)‡	1.4bn	-	-	May 2035	-	-	Deutsche Bank
Commerzbank AG	1bn	5.25	99.80R	May 2008	0.325R	+33(6¼%-Jan08)	Commerzbank
■ SWISS FRANCS							
Mun Hsng Finance Finland	150	3.125(s)	102.15	May 2005	2.50	-	CSFB
Toronto Dominion Bank*‡	100	(b)	100.00	May 2001	0.05	-	Deutsche Bank/Swiss
■ EUROS(c)							
DSL Bank	500	4.75	99.87R	May 2003	0.25R	+8†	Nomura/SBC Warburg DR
Goldman Sachs Group LP	250	5.25(s)	99.829R	May 2005	0.375R	+42(7%-Apr05)	Goldman Sachs Intl
■ PESETAS							
Landesbank Sachsen	10bn	4.75	99.84R	Jun 2003	0.10R	+10(5%-Jan03)	Banco Bilbao Vizcaya

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. ‡ Floating-rate note. R: fixed re-offer price, fees shown at re-offer level. a) 6-tranche deal backed by German residential mortgages. b) 3-mth Libor flat. c) Payments in Ecu prior to Emu. Spread relates to French govt Ecu bonds. † Over interpolated yield. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

May 11	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.6512	4.98	-0.01	-0.02	-0.10	-1.40
	10/07	10.000	131.2602	5.63	-0.04	-0.08	+0.09	[illegible]
Austria	08/99	7.000	103.6400	4.15	+0.02	-0.03	+0.02	[illegible]
	07/07	5.625	104.0000	5.09	+0.02	+0.04	+0.14	-0.84
Belgium	01/00	4.000	99.6800	4.21	-	-0.03	-0.08	[illegible]
	03/07	4.000	108.2900	5.07	[illegible]	[illegible]	[illegible]	[illegible]
Canada	09/98	4.750	99.4600	5.17	+0.07	+0.32	+0.47	[illegible]
	07/07	7.250	112.5000	5.42	+0.04	+0.07	+0.19	-1.12
Denmark	12/99	6.000	101.8500	4.70	-0.15	+0.17	+0.30	+0.73
	11/07	7.000	112.5400	5.28	-0.04	+0.08	+0.22	-1.08
Finland	01/99	11.000	104.5748	3.85	+0.02	+0.04	+0.10	+0.14
	04/06	7.250	114.4230	5.00	-	+0.04	+0.17	-1.11
France	01/00	4.000	99.8200	4.10	-0.02	-0.04	+0.01	+0.37
	10/04	6.750	110.8100	4.78	+0.03	-	+0.12	-0.46
	10/07	5.500	103.5400	5.02	+0.02	+0.06	+0.15	-0.83
	10/25	6.000	106.1900	5.55	+0.01	+0.07	+0.16	-0.98
Germany	09/99	4.000	100.0000	3.99	+0.02	-0.04	+0.02	+0.46
	11/04	7.500	114.6100	4.82	+0.03	+0.03	+0.14	-0.45
	07/07	6.000	107.1600	5.00	+0.01	+0.04	+0.15	-0.73
	07/27	6.500	113.4600	5.66	+0.02	+0.07	+0.17	-0.86
Ireland	04/99	6.250	101.0500	4.98	+0.01	-0.12	+0.16	-1.01
	08/06	8.000	118.5000	5.19	+0.01	+0.04	+0.16	-1.43
Italy	06/00	6.000	102.7800	4.52	-0.03	-0.01	+0.01	-2.10
	05/02	6.250	105.3600	4.76	+0.01	-	+0.06	-2.13
	07/07	6.750	111.4800	5.16	+0.01	+0.04	+0.12	-2.20
	11/26	7.250	122.3500	5.86	+0.01	+0.03	+0.13	-2.28
Japan	03/00	6.400	110.9800	0.40	-	-0.06	-0.15	-0.66
	12/02	4.800	117.3800	0.93	+0.02	-0.11	-0.28	-1.07
	09/05	3.000	111.1100	1.40	+0.01	-0.10	-0.27	-1.19
	09/17	3.000	111.6100	2.28	+0.02	-0.08	-0.28	-1.01
Netherlands	11/99	7.500	104.8100	4.11	-	-0.02	+0.01	+0.41
	02/07	6.750	105.3900	4.87	-	+0.04	+0.14	-0.67
New Zealand	02/00	6.500	99.1405	7.65	-0.02	-0.04	-0.28	+0.27
	11/06	8.000	107.4538	6.81	+0.03	+0.01	-0.11	-0.79
Norway	01/99	9.000	103.0500	4.50	-0.06	+0.05	+0.18	+0.04
	01/07	6.750	108.9900	5.42	-0.02	+0.04	+0.21	-0.88
Portugal	03/00	8.800	103.5379	4.18	-0.01	-0.06	-0.01	-1.28
	02/07	6.625	110.3800	5.12	+0.01	+0.04	+0.15	-1.43
Spain	07/99	7.400	103.6600	4.21	+0.06	+0.05	-	-1.04
	03/07	7.350	115.6100	5.12	+0.02	+0.06	+0.14	-1.53
Sweden	01/99	11.000	104.0938	4.88	-0.01	-0.03	+0.02	-0.12
	08/07	8.000	119.7170	5.26	-	+0.02	+0.09	-1.78
Switzerland	03/00	5.000	105.5000	1.90	-	-0.01	-	+0.17
	06/07	4.500	111.1500	3.07	+0.01	+0.04	+0.12	-0.46
UK	08/99	6.000	99.2300	6.84	+0.01	+0.09	+0.07	-0.04
	11/04	6.750	104.3735	5.90	-	+0.08	+0.08	-1.02
	12/07	7.250	110.0156	5.87	+0.01	+0.11	+0.12	-1.12
	06/21	8.000	127.8600	5.79	-	+0.07	+0.12	-1.28
US	10/99	5.625	99.9688	5.65	+0.06	+0.05	+0.11	-0.59
	11/04	7.875	111.2580	5.78	+0.02	+0.06	+0.13	-0.74
	08/07	6.125	102.2190	5.81	+0.04	+0.08	+0.16	-0.86
	08/27	6.375	104.7500	6.03	+0.02	+0.05	+0.13	-0.85
ECU	01/00	4.000	99.6300	4.22	+0.01	-0.06	+0.07	-0.05
	04/07	6.500	103.2400	5.04	-0.01	+0.03	+0.11	-1.08

London closing. *New York mid day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualised yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

May 11	Bid Yield	Spread vs Bunds	Spread vs T-Bonds		Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.63	+0.65	-0.10	New Zealand	6.81	+1.83	+1.08
Austria	5.09	+0.11	-0.64	Norway	5.47	+0.49	-0.26
Belgium	5.12	+0.14	-0.61	Portugal	5.16	+0.18	-0.57
Canada	5.42	+0.44	-0.31	Spain	5.15	+0.17	[illegible]
Denmark	5.30	+0.32	-0.43	Sweden	5.29	+0.31	-0.44
Finland	5.10	+0.12	-0.63	Switzerland	3.07	-1.91	-2.66
France	5.05	+0.07	-0.68	UK	5.84	+0.86	+0.11
Germany	4.98	-	-0.75	US	5.73	+0.75	-
Ireland	5.20	+0.22	-0.53	ECU	5.10	+0.12	[illegible]
Italy	5.24	+0.26	-0.49				
Japan	1.40	-3.58	-4.33				
Netherlands	5.04	+0.06	-0.69				

Source: Interactive Data/FT Information. London closing. * New York closing. Annualised yield basis.

EMERGING MARKET BONDS

May 11	Red date	Coupon	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
■ EUROPE								
Croatia	02/02	7.000	BBB-	97.8498	7.66	+0.04	-0.18	+2.00
Poland	07/04	7.125	BBB-	102.3990	6.64	+0.04	+0.28	+0.94
Russia	06/07	10.000	BB-	94.7500	[illegible]	+0.04	+0.07	[illegible]
■ LATIN AMERICA								
Argentina	09/27	9.750	BB	94.7500	10.31	+0.10	+0.27	+4.32
Brazil	05/27	10.125	BB-	95.0000	10.69	+0.11	+0.40	+4.70
Mexico	05/26	11.500	BB	118.6300	9.57	+0.12	+0.26	+3.60
■ ASIA								
China	07/06	7.750	BBB+	104.3190	7.03	+0.04	+0.07	+1.32
Philippines	10/16	8.750	BB+	94.4279	[illegible]	+0.04	+0.20	+3.55
Thailand	04/07	7.750	BBB-	94.8281	8.60	+0.04	-0.28	+2.88
■ AFRICA/MIDDLE EAST								
Lebanon	07/00	8.125	BB-	102.0581	8.04	+0.04	+0.09	+2.43
South Africa	10/06	8.375	BB+	102.9497	7.87	+0.04	+0.10	+2.18
Turkey	09/07	10.000	B	101.9282	9.66	+0.04	+0.14	[illegible]
■ BRADY BONDS								
Argentina	03/23	5.500	BB	75.0000	8.39	+0.07	+0.18	+2.46
Brazil	04/14	5.000	BB-	80.2500	[illegible]	+0.13	+0.55	+4.06
Mexico	12/19	6.250	BB	83.6300	7.83	+0.04	+0.18	+1.95
Venezuela	03/20	6.750	B+	83.6300	8.40	+0.14	+0.36	+2.51

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Germany

Italy

Spain

UK

US

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE)

US CORPORATE BONDS

US INTEREST RATES

INTERNATIONAL BONDS

UK BONDS

FTSE Actuaries Govt. Securities

FT Fixed Interest Indices

UK GILTS PRICES

Other Fixed Interest

Investors take profits on D-Mark

MARKETS REPORT

By Simon Kuper

The D-Mark fell yesterday as investors decided they had overestimated the chance of an early German interest rate increase.

Figures showed German consumer prices rising in April. But the year-on-year increase of 1.4 per cent, although a relative leap from March's 1.1 per cent, was still too low to suggest any domestic need for higher rates. Investors took profits on the D-Mark's advance of last week.

Paul Meggyesi, senior currency economist at Deutsche Morgan Grenfell in London, said investors were giving up on the idea that the Bundesbank might raise interest rates simply because it disapproved of the recent deal to split the presidency of the European central bank between Wim Duisenberg and Jean-Claude Trichet. "The Buba isn't going to raise rates in a fit of pique," Mr Meggyesi said.

The dollar broke through resistance at DM1.7750 against the D-Mark, closing in London at DM1.777, 0.8 of a pfennig up on the day.

Sterling fell against the dollar again, even though UK industrial production was better than expected in March. The pound firmed 0.2 pfgs against the D-Mark to DM2.897 but dropped 0.6 cents against the US currency to $1.631.

The Australian dollar briefly fell to near a twelve-year low against the US dollar. The Aussie dollar has suffered in recent months from cuts in Australian rates and from the country's large current account deficit, and has been knocked on the head in the last week by an apparent revival of the Asian economic crisis. With several south east Asian markets shut yesterday, the Aussie dollar was traded as a proxy for the rest of Asia.

The currency fell to $0.6323 against the US dollar, but later recovered to $0.637, near its Friday close. Its next key support is at $0.6315, its 1986 low and the level at which the Australian central bank intervened in the market this January. The New Zealand dollar was struggling at $0.5400 to the US dollar late yesterday.

■ Portugal cut interest rates yesterday, as Spain did last week. The Bank of Portugal cut its key repo rate, its drain rate and its emergency lending rate by 20 basis points each to 4.50 per cent, 4.20 per cent and 6.20 per cent respectively.

European interest rates are converging before the start of monetary union in January 1999. However, the convergence has been driven by cuts in the high-rate nations, while the low-rate countries, chief among them Germany, have kept rates steady. Various Bundesbank officials have said in recent weeks that there is no hurry for a German increase. This view is sinking into the market – hence the dollar's bounce against the D-Mark yesterday.

■ Dollar/D-Mark and dollar/yen continue to go their separate ways. The former pair has become more volatile, with the D-Mark rising recently. But dollar/yen has been locked in a narrow range, pushed one way by the strong US economy and the other by Japanese threats to intervene for the yen, probably at about Y133.

The question in the market is where the US stands on intervention. Talks in London this weekend between Robert Rubin, US treasury secretary, and Hikaru Matsunaga, Japan's finance minister, produced conflicting evidence.

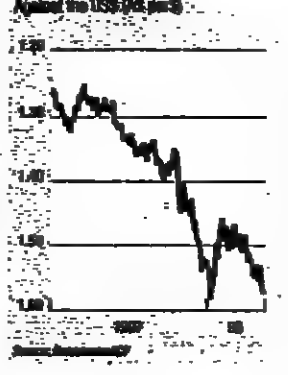
A statement issued after the talks seemed relatively innocuous. It merely said that the two men had "reiterated their commitment to cooperate closely in the exchange markets as appropriate. Mr Matsunaga expressed his concern about excessive weakness of the yen in light of the implications for external imbalances and the situation in Asia. Secretary Rubin shared his concern."

This suggested that Japan was still pushing the cart for intervention. However, Haruhiko Kuroda, director-general of the international finance bureau at Japan's finance minister, yesterday suggested the statement was stronger than it looked. "The statement said we are prepared to take joint (foreign exchange) action," he said.

That kept the dollar almost motionless against the yen yesterday.

Australian dollar

Against the US$ (A$ per $)



■ POUND IN NEW YORK

May 11	—Latest—	—Prev. close—
£ spot	1.6315	1.6365
1 mth	1.6289	1.6340
3 mth	1.6245	[illegible]
1 yr	1.6083	1.6136

■ OTHER CURRENCIES

May 11	£	$
Czech Rep	52.0888 - 53.0793	32.5080 - 32.5440
Hungary	342.080 - 342.331	209.840 - 209.980
[illegible]	4893.00 - 4890.00	3000.00 - 3000.00
[illegible]	0.4970 - 0.4983	0.3054 - 0.3055
Peru	4.6325 - 4.6386	2.8430 - 2.8440
Poland	5.3150 - 5.5242	3.3840 - 3.3870
[illegible]	9.9913 - 9.9991	6.1250 - 6.1340
U.A.E.	5.9865 - 5.9907	3.6727 - 3.6730

WORLD INTEREST RATES

MONEY RATES

May 11	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.75	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.60	-	3.30
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.30
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	[illegible]
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.50	5.00	5.63
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	2.75	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR BBA London Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.42	5.45	5.48	5.58	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

[illegible]

EURO CURRENCY INTEREST RATES

POUND SPOT FORWARD AGAINST THE POUND

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

UK INTEREST RATES

LONDON MONEY RATES

EMS EUROPEAN CURRENCY UNIT RATES

BASE LENDING RATES

Kenya on target for record tea harvest this year

By Gary Mead

Kenya is on target for a record tea harvest in 1998 on the basis of the crop from the first three months of this year, which shows a rise of more than 96 per cent above the same period in 1997.

According to the country's Tea Brokers Association, the first quarter's figure – estimated at 86.5m kg by the Mombasa-based company Africa Tea Brokers – is a record.

If this level is sustained, 1998 could outstrip the previous annual record of 257m kg, produced in 1996. For March alone the crop figure reached more than 28.4m kg, almost 357 per cent more than was produced in March last year.

However, the increase needs to be placed in the context of what was a very poor year in 1997, when the total production figure for tea – Kenya's biggest commodity export – was just 220m kg, some 35 per cent below average.

This low figure was due to severe drought, believed to have been induced by the El Niño weather phenomenon.

The large increase in tea production so far this year is also being attributed to El Niño. Last year's severe drought has been displaced by heavy rainfall in Kenya between October and January, allowing the tea plantations to recover. Since February the country has enjoyed drier, sunnier weather, producing ideal conditions for tea to flourish.

Kenyan tea prices have been in retreat in the past few weeks, as the market adjusted to expectations of a bumper crop.

Prices are likely to weaken further as a result not only of the healthy production outlook in Kenya but also for India, where production is currently running some 25m kg above average for this stage of the harvest.

India remains the biggest producer of tea but more than 80 per cent of its crop is consumed domestically.

Kenya, however, exports 90 per cent of its tea, the bulk of it to the UK, Egypt and Pakistan.

If the current healthy outlook is maintained for the rest of 1998, Kenya will once again become the biggest exporter of black tea, displacing Sri Lanka, which nudged ahead last year when it exported a record 268.5m kg from a total production of 276.86m kg. However, Sri Lanka's production this year may itself be hit by the lingering effects of El Niño.

The biggest buyers of Sri Lankan tea are Russia and other former Soviet republics, which together took more than 54.8m kg in 1997.

Oil back through $15 a barrel

MARKETS REPORT

By Gary Mead

Vigour returned to crude oil markets yesterday, fuelled in part by a clear statement from Kuwait that it intends to seek further production cuts by members of the Organisation of Petroleum Exporting Countries when ministers assemble for a scheduled meeting on June 24 in Vienna.

"We will start contacts with Opec's members to push for further cuts because the international oil market is over-saturated. We hope Opec will further cut its production in next month's meeting," said Sheikh Saud Nasser al-Sabah, Kuwait's oil minister.

On the International Petroleum Exchange the June contract for Brent pushed through the $15 a barrel mark after being stuck in a $14 to $15 trading range for some time. In late trading the contract was 38 cents higher at $15.07 a barrel, as investment funds returned to the market.

On the London International Financial Futures Exchange the July coffee contract rose $13 to $1,858 a tonne, while the July cocoa contract fell £11 to £1,129 a tonne.

The London Metal Exchange saw universal selling. Three-month nickel fell $230 to $5,170 a tonne.

Terry Smeeton, the Bank of England's former head of foreign exchange, said he expected the European Central Bank to hold between 10 per cent and 20 per cent of its reserves in gold.

Boliden said it planned to reopen its Los Frailes zinc mine in southern Spain in about six months. The mine was closed on April 25 when a burst reservoir created one of Spain's worst ecological disasters.

Indian future for castor oil

By Kunal Bose in Calcutta

India is almost ready to launch an international futures exchange in castor oil in New Bombay. But, despite the requests of foreign traders, the exchange will quote prices not in dollars, but rupees.

The country produces nearly three-quarters of the world's supply of castor oil, a raw material for products such as paints and varnishes. The exchange should allow companies to hedge their exposure to what has been a volatile commodity.

The new exchange is modelled on the pepper exchange, India's first international commodity futures exchange, which has been in operation since last October.

The Bombay Oilseeds & Oils Exchange, which has been authorised to sponsor the castor oil futures exchange, has created the Prime Commodities Corporation of India as the clearing house. BOOE and its members will own 55 per cent of PCCI, with the balance held by banks and financial institutions.

Despite foreign traders' requests, trading in castor oil futures will be in rupees as the government is not likely to allow dollar-denominated trading for a range of commodities until the rupee becomes fully convertible.

"The eight-month-old International Pepper Futures Exchange, where business is done in rupees, still does not have a single foreign member. Foreigners do not want to be exposed to currency fluctuation risk but some are making deals through local members. The same is going to happen to the castor oil exchange," said a commodities expert.

Navinchandra Pandya, president of BOOE, said the exchange would ensure "there is no cornering of stocks in a tight supply situation". As trading in futures starts, the availability of castor oil will be limited because of a fall in the 1996-97 Indian crop.

Normally, India exports nearly 90 per cent of its production.

The exchange is making delivery arrangements at five centres in the western Indian state of Gujarat and in one in the southern Indian state of Andhra Pradesh. It is planning to link up with the oil exchanges at Ahmedabad and Rajkot, which handle the bulk of forward trading in castor seeds.

As BOOE gets ready to start trading in castor oil, it wants the government to allow it to launch futures trading in other oils and oilseeds. Trading in a number of commodities would make the exchange viable.

Rio Narcea goes for gold in the Cantabrian mountains

Spain's first gold mine in 2,000 years has been welcomed by the most pro-mining country on earth, writes Kenneth Gooding

This might not seem a good time for a mining company to be holding a party in Spain. Only three weeks ago part of a waste dam at the Los Frailes zinc mine in southern Spain collapsed, causing what local environmentalists described as one of the country's biggest ecological disasters.

Yet today King Juan Carlos will formally open the El Valle mine in the Cantabrian mountains – the country's first gold mine for about 2,000 years.

The King's presence, even for a brief visit, goes to show that Spain is probably the most pro-mining country on earth.

As Yorkton Securities, broker to Rio Narcea Mines, owner of El Valle, explains: "The exploitation of natural resources in Spain usually takes precedence over all other forms of activity."

Although no forced relocations were necessary, a small village used to sit astride the gold deposit and Spanish law would have enabled Rio Narcea to buy the houses compulsorily, albeit at a fair price. The villagers would have had to move and could not appeal against their removal.

El Valle will produce about 100,000 troy ounces of gold a year to start with, modest by international standards, but it will be western Europe's biggest gold producer. Output is scheduled to be expanded quickly to 150,000 ounces.

The mine is located near Salas in Spain's north western region of Asturias, an area that provided the Roman Empire with much of its wealth. But the Romans missed the gold Rio Narcea is mining because it is finely disseminated through the ore and is mainly invisible to the naked eye.

The mine is also in beautiful, rugged mountains above the river from which Rio Narcea takes its name. It is reputed to be one of the best fishing rivers in Spain. Consequently, special consideration was given to the mine's waste dam – long before the Los Frailes disaster made it such a contentious issue.

"This is an example to the world of a fool-proof tailings [waste] pond. We have a lot of rain here – 1.2 metres a year – and the last thing the government wanted was for it to overflow into the river," said Gene Spiering, Rio Narcea vice-president, exploration, as he inspected the huge construction from a convenient peak nearby.

A natural valley has been used to provide three sides of the dam and waste material from the mine makes up its fourth wall. The dam is lined with 2¼ metres of impermeable clay and then a 1.5 centimetre plastic membrane. "The water going into the dam is almost drinkable," said Mr Spiering.

Waste dams at mines very rarely cause any problems. A report prepared two years ago by Mining Journal Research Services for the United Nations Environment Programme, identified fewer than 10 major failures between 1980 and 1996.

When dams collapse it is usually caused by water, either seeping through a wall, eroding from within or overflowing. Drainage pipes at the bottom of the El Valle dam extract the water and it is recycled in the gold processing plant.

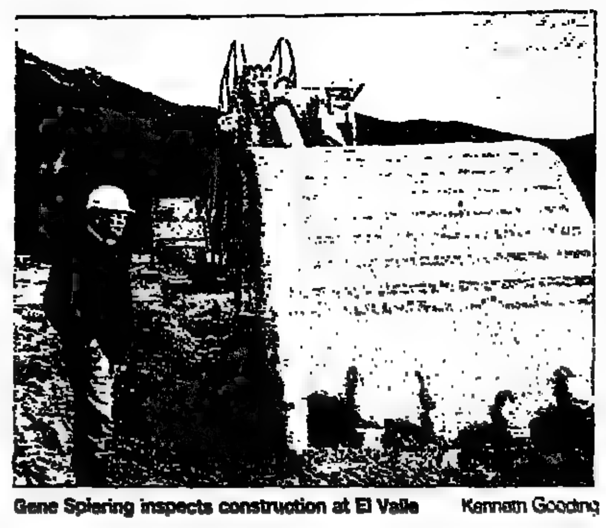
Even if some freak happening caused part of the dam wall to give way, the waste would flow into another dam – owned by the local hydro-electric power company – rather than into the river.

Rio Narcea, quoted in Toronto, so far has spent about $70m to bring the mine and associated plant into operation. The Spanish government has provided about one-third of the $45m capital expenditure via non-reimburseable grants. One person in five is unemployed in the area and the government wants to attract new industrial activity.

In the small village of Begega, perched on the mountain above El Valle's three open pits, at least one person from every house has a job at the mine.

At present there are 170 employees. This eventually will rise to 280, while about 700 indirect jobs are being created.

So far Rio Narcea has discovered nearly 3m ounces of gold in three deposits: El Valle, Godan and Carles, enough for at least eight years of open pit mining and then up to 10 years of underground life. Mr Spiering expects to find much more gold in the area.



Gene Spiering inspects construction at El Valle Kenneth Gooding

Although Rio Narcea's low costs enable it to be profitable at today's low gold prices, prudence dictated it cut its exploration budget from $5m to $4m this year.

Half will be spent in the El Valle area. "We need another two years at this rate to see what we really have here," said Mr Spiering.

Sometimes there are disappointments. In one of the pits, Boinas West, Mr Spiering's geologists found a block of ore as big as a car with an incredible amount of gold in it – equivalent to 300 grams a tonne compared with the average 5 grams in the ore being mined.

Unfortunately, instead of being part of a high grade ore zone, it turned out to be a block that had fallen from the pit wall when the Romans were mining 2,000 years ago.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1357-8	1383-84
Previous	1377-8	1401.5-2.5
High/low		1397/1378
AM Official	1369-70	1386.5-8.0
Kerb close		1391-2
Open int.	275,180	
Total daily turnover	63,299	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1258-63	1278-80
Previous	1268-73	1288-93
High/low		1285/1274
AM Official	1261-4	1280-85
Kerb close		1270-75
Open int.	6,856	
Total daily turnover	1,506	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	529.5-30.5	545-46
Previous	539.5-40.5	555.5-6.0
High/low		552/544
AM Official	537-8	552-3
Kerb close		544-45
Open int.	35,309	
Total daily turnover	9,153	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	5125-35	5215-20
Previous	5325-35	5415-20
High/low		5410/5170
AM Official	5195-200	5300-05
Kerb close		5170-75
Open int.	51,074	
Total daily turnover	21,019	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5760-70	5700-705
Previous	5800-10	5735-45
High/low		5745/5690
AM Official	5800-10	5735-40
Kerb close		5695-700
Open int.	17,589	
Total daily turnover	6,123	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1072-73	1097-98
Previous	1088.5-9.5	1113-4
High/low		1113/1092
AM Official	1086.5-7.5	1112.5-3.0
Kerb close		1093-94
Open int.	81,518	
Total daily turnover	18,110	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	1720-21	1733-34
Previous	1774-5	1786-7
High/low		1784/1720
AM Official	1771-2	1780-81
Kerb close		1724-28
Open int.	173,491	
Total daily turnover	60,435	

■ LME AM Official £/$ rate: 1.6376
LME Closing £/$ rate: 1.6390

Spot: 1.6301 3 mths: 1.6232 6 mths: 1.6165 9 mths: 1.6116

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
May	77.40	-1.35	79.60	77.20	398	1,650
Jun	77.70	-1.50	80.20	77.60	407	3,332
Jul	78.00	-1.65	80.60	77.70	7,326	25,098
Aug	78.00	-1.55	80.00	78.30	63	1,846
Sep	78.00	-1.55	80.35	77.90	563	6,703
Oct	78.00	-1.50	78.90	78.30	10	1,532
Total					10,146	60,224

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	300.90-301.40		
Opening	300.50-300.80		
Morning fix	[illegible]	182.462	442.131
Afternoon fix	298.90	182.859	443.717
Day's High	301.00-301.40		
Day's Low	298.10-298.50		
Previous close	299.60-300.10		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ..... 4.41 6 months 4.01
2 months ..... 4.29 12 months 3.76
3 months 4.19

Silver Fix	p/troy oz.	US cts equiv.
Spot	353.35	579.00
3 months	355.80	580.50
6 months	358.20	579.00
1 year	356.40	576.05

Gold Coins	$ price	£ equiv.
Krugerrand	304-307	186-188
Maple Leaf	-	-
New Sovereign	70-73	43-45

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	300.3	+0.5	-	-	-	-
Jun	301.2	+0.5	302.1	[illegible]	19,407	[illegible]
Aug	303.4	+0.6	304.3	301.5	2,076	11,750
Oct	305.4	+0.6	306.2	303.2	18	5,117
Dec	307.4	+0.6	308.5	305.6	522	17,887
Feb	309.1	+0.6	308.0	306.6	10	8,018
Total					22,181	191,576

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	392.5	-6.5	395.0	388.0	951	11,892
Oct	386.5	-6.5	390.5	385.0	11	794
Jan	382.5	-6.5	-	-	4	46
Apr	380.0	-6.5	-	-	1	11
Total					964	12,744

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	301.80	+3.70	304.00	298.00	900	2,754
Sep	279.60	-0.30	285.10	277.00	430	1,448
Dec	271.50	-5.30	278.00	265.50	12	338
Total					1,342	4,646

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	570.2	-22.3	581.5	571.5	79	447
Jul	573.2	-23.0	598.0	572.5	8,396	48,442
Sep	576.2	-23.0	598.0	574.0	217	5,390
Dec	575.2	-23.0	597.0	575.5	240	12,337
Jan	575.1	-23.0	585.0	585.0	-	15
Mar	574.3	-23.0	584.0	580.0	3	2,810
Total					8,936	78,222

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	15.35	+0.22	15.48	14.90	44,375	93,926
Jul	16.03	+0.16	16.14	16.85	28,895	68,402
Aug	16.42	+0.11	16.50	16.15	12,129	47,504
Sep	16.75	+0.10	16.83	16.42	7,475	30,799
Oct	17.02	+0.13	17.05	16.75	4,602	21,136
Nov	17.06	-0.03	17.05	17.05	1,244	14,552
Total					106,812	459,318

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	14.96	+0.27	15.08	14.59	23,497	40,010
Jul	14.89	+0.13	15.00	14.63	21,161	75,644
Aug	15.15	+0.14	15.21	14.88	3,924	30,418
Sep	15.36	+0.12	15.42	15.18	1,405	14,189
Oct	15.60	+0.14	15.60	15.37	1,256	9,322
Nov	15.72	+0.08	15.72	15.54	359	10,897
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	43.40	+0.39	43.70	42.40	16,689	42,099
Jul	44.35	+0.32	44.55	43.40	9,334	27,803
Aug	45.50	+0.37	45.60	44.60	2,082	13,639
Sep	46.65	+0.37	46.80	45.80	569	11,676
Oct	47.70	+0.32	47.90	47.10	322	8,962
Nov	48.85	+0.37	48.90	48.40	403	8,884
Total					31,361	168,629

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	133.25	-1.00	134.25	131.75	9,897	14,314
Jun	135.00	+0.25	135.50	132.75	13,282	30,763
Jul	137.25	+0.25	138.00	135.75	2,202	11,267
Aug	140.00	+0.25	140.75	138.50	1,282	10,203
Sep	143.00	+0.50	143.75	141.75	558	10,930
Oct	146.00	+0.50	145.75	144.75	860	14,282
Total					28,452	140,123

■ NATURAL GAS IPE (1,000 therms; pence per therm)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	8.920	-0.060	8.920	8.920	6	1,260
Jul	8.900	-0.100	8.920	8.900	255	1,250
Total					1,430	22,459

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	2.225	+0.058	2.260	2.180	29,410	41,565
Jul	2.280	+0.053	2.320	2.240	9,898	26,807
Aug	2.330	+0.053	2.360	2.295	3,802	22,472
Sep	2.365	+0.048	2.390	2.330	3,423	15,997
Oct	2.400	+0.043	2.425	2.375	2,475	16,237
Nov	2.535	+0.038	2.550	2.530	2,011	11,625
Total					59,848	253,132

■ UNLEADED GASOLINE

NYMEX (42,000 US galls., c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	52.70	+0.68	53.00	51.40	13,416	42,645
Jul	53.80	+0.66	53.95	52.50	7,844	24,916
Aug	54.10	+0.53	54.30	53.10	1,971	16,473
Sep	53.60	+0.41	53.75	52.90	911	14,135
Oct	51.90	-0.19	51.90	51.90	423	4,462
Nov	51.40	-	51.40	51.40	22	1,028
Total					24,352	107,699

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	78.00	-0.25	78.25	77.80	-	179
Jul	80.00	-0.25	80.00	79.50	176	1,844
Sep	78.00	-0.40	78.00	78.00	10	155
Nov	80.00	-0.40	80.00	79.50	72	3,393
Jan	82.00	-0.40	82.00	81.60	63	653
Total					336	6,764

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	294.75	-7.50	298.00	292.50	254	577
Jul	304.75	-7.50	309.00	303.00	10,664	66,068
Sep	313.75	-7.25	318.50	312.50	934	15,242
Dec	327.75	-7.25	333.00	326.50	1,792	24,084
Mar	338.50	-6.75	340.00	337.50	167	3,915
Jul	347.00	-7.00	347.00	347.00	5	202
Total					13,891	110,589

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	240.75	-7.50	245.00	238.50	6,440	5,610
Jul	247.75	-8.00	252.75	246.25	27,208	152,263
Sep	254.50	-8.50	259.50	253.50	1,806	37,924
Dec	259.75	-8.50	264.00	258.50	14,664	125,578
Mar	267.50	-8.50	269.00	267.00	616	10,983
May	272.25	-8.00	273.75	272.00	135	1,806
Total					50,137	349,696

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	76.50	-0.60	76.60	76.50	10	62
Sep	75.60	-0.80	75.60	75.50	2	20
Nov	77.50	-0.50	77.50	77.25	41	795
Jan	79.60	-0.60	79.50	79.50	90	114
Mar	81.50	-0.50	81.50	81.50	-	1
Total					69	[illegible]

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	650.00	-7.50	653.00	646.00	1,689	5,495
Jul	644.50	-7.50	648.00	640.00	26,392	71,202
Aug	643.25	-8.25	646.00	639.00	948	14,958
Sep	628.25	-8.00	630.00	626.00	375	4,033
Nov	621.50	-8.50	626.00	619.50	7,613	45,323
Jan	626.50	-8.25	630.00	627.00	321	2,614
Total					37,479	146,664

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
May	29.14	-0.13	29.35	28.90	1,748	3,203
Jul	29.54	-0.02	29.74	29.25	18,430	93,776
Aug	29.64	+0.02	29.82	29.38	1,840	20,611
Sep	29.63	+0.04	29.78	29.35	1,230	12,256
Oct	29.36	+0.01	29.45	29.10	930	7,420
Dec	29.16	+0.12	29.30	28.75	6,447	27,143
Total					30,455	167,764

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
May	153.8	-2.2	154.5	152.0	1,306	2,687
Jul	156.2	-3.1	158.3	155.0	14,128	64,082
Aug	157.2	-3.1	157.7	156.2	820	18,687
Sep	158.3	-2.9	158.7	157.3	284	13,487
Oct	157.6	-3.4	159.0	157.5	263	9,183
Dec	160.2	-3.5	162.0	159.8	2,360	22,715
Total					19,431	135,680

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
[illegible]	140.0	+2.0	-	-	-	-
Nov	77.0	+2.0	-	-	-	5
[illegible]	112.0	+2.0	-	-	-	-
Apr	163.0	+7.0	163.0	158.0	151	1,[illegible]
May	173.0	+7.0	-	-	-	29
Total					151	1,[illegible]

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
May	950	-20	960	950	31	353
Jun	920	-15	935	935	5	53
Jul	905	-35	910	905	36	347
Oct	1020	-30	1040	1020	98	184
Jan	1050	-30	1050	1050	75	58
Total					242	1,605

	Close	Prev
BFI	1001	1004

PULP AND PAPER

■ PULPEX OMLX (US$; 24 air dry tons)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	528.00	-6.25	531.00	528.00	15	550
Sep	548.00	-7.50	553.50	548.00	20	342
Total					35	979

FUTURES DATA

All futures data supplied by CMS.

Minor metals from Metal Bulletin European free market. $ per lb in warehouse, unless otherwise stated (last week's in brackets, where changed). Antimony: 99.65%, $ per tonne, 1,470-1,530 (1,480-1,540). Bismuth: min. 99.99%, tonne lots 3.65-3.85 (3.80-4.00). Cadmium: min. 99.95%, cents a pound, 26.00-30.00 (28.00-32.00). Cobalt: MB free market, min 99.8%, 24.50-25.00 (24.40-25.00); min. 99.3%, 20.80-21.30 (20.50-21.00). Mercury: min. 99.99%, $ per 76 lb flask, 133-143 (135-145). Molybdenum: drummed molybdic oxide, 3.95-4.15 (4.25-4.35).

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	1100	-8	1113	1105	226	416
Jul	1121	-10	1125	1118	848	29,575
Sep	1140	-10	1145	1138	413	22,454
Dec	1180	-8	1184	1159	102	31,909
Mar	1180	-7	1184	1177	359	35,798
May	1193	-7	1196	1194	68	13,137
Total					1,701	180,328

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
May	1702	+10	1707	1705	57	526
Jul	1694	-15	1700	1683	5,070	26,927
Sep	1714	-14	1716	1704	728	13,027
Dec	1740	-12	1743	1733	478	16,154
Mar	1768	-12	1768	1757	25	9,523
May	1785	-12	1817	1815	29	3,767
Total					6,364	78,865

■ COCOA (ICCO) (SDR's/tonne)

May 8	Price	Prev. day
Daily	1333.05	1343.30

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	2008	+23	2010	1994	204	4,889
Jul	1858	+13	1860	1850	828	22,577
Sep	1790	+7	1795	1780	223	7,114
Nov	1748	+2	1755	1740	30	2,317
Jan	1706	-3	1704	1704	3	181
Mar	1666	-8	-	-	-	357
Total					1,284	37,438

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	129.50	-	129.50	128.00	75	1,005
Jul	128.05	+0.60	128.75	126.50	2,355	17,132
Sep	125.50	+0.30	126.00	124.50	626	7,785
Dec	122.00	+0.05	122.60	121.50	149	6,608
Mar	119.00	+0.15	119.50	118.75	189	2,284
May	117.35	+0.10	118.00	117.60	113	960
Total					3,569	36,480

■ COFFEE (ICO) (US cents/pound)

May 8		Prev. day
Comp. daily	113.08	112.90
15 day average	115.62	116.33

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	265.3	+3.3	265.5	262.5	1,300	18,234
Oct	264.8	+2.5	265.0	263.1	417	11,429
Dec	268.8	+1.5	269.0	267.8	77	1,804
Mar	272.8	+2.2	272.5	270.6	66	2,140
May	275.5	+1.1	276.0	274.1	40	523
Aug	277.1	-1.0	281.0	278.8	58	241
Total					n/a	34,366

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	9.24	+0.10	9.25	9.12	11,588	82,875
Oct	9.44	+0.08	9.45	9.36	3,908	51,269
Mar	9.84	+0.09	9.85	9.76	2,261	25,440
May	9.88	+0.10	9.86	9.81	18	3,542
Jul	9.91	+0.10	9.89	9.86	120	3,610
Oct	9.81	+0.10	9.80	9.89	10	3,373
Total					17,765	178,878

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	65.40	-0.26	65.65	65.10	4,501	31,159
Oct	68.30	-0.23	68.49	68.10	290	3,850
Dec	69.73	-0.25	69.98	69.48	4,337	32,677
Mar	71.15	-0.20	71.35	71.05	190	7,395
May	71.88	-0.15	72.15	71.70	67	3,030
Total					9,864	83,068

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	114.55	-0.70	117.00	112.30	2,229	20,716
Sep	117.55	-0.40	119.50	115.75	270	5,515
Nov	119.40	-0.40	120.75	117.50	524	4,251
Jan	120.90	+0.60	122.00	120.25	76	1,774
Mar	123.15	+0.50	123.40	122.00	2	917
Total					3,267	34,1[illegible]

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

May 11	May 8	month ago	year ago
1629.6	1632.3	1655.9	1972.6

■ CRB Futures (Base: 1967 = 100)

May 8	May 7	month ago	year ago
225.14	225.35	-	-

■ GSCI Spot (Base: 1970 = 100)

May 8	May 7	month ago	year ago
163.85	163.67	166.05	197.30

LME WAREHOUSE STOCKS (tonnes)

Aluminium	+7,200	to	518,425
Aluminium alloy	-180	to	50,220
Copper	+8,150	to	283,050
Lead	-200	to	108,400
Nickel	-78	to	64,404
Zinc	-1,025	to	454,075
Tin	-90	to	8,010

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	67.575	-0.150	67.775	67.350	8,730	40,200
Aug	68.850	-0.125	68.950	[illegible]	3,009	25,196
Oct	68.450	-0.250	68.650	68.175	1,385	14,658
Dec	69.325	-0.250	69.575	69.200	168	5,182
Feb	70.325	-0.225	70.500	70.300	62	1,664
Apr	71.225	-0.200	71.500	71.300	24	836
Total					13,426	87,493

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	61.675	+0.750	61.900	61.125	2,679	13,378
Jul	61.925	+0.650	61.975	61.150	1,569	7,488
Aug	59.100	+0.650	59.200	58.500	771	4,952
Oct	54.175	+0.625	54.250	53.500	184	3,678
Dec	54.250	+0.250	54.400	54.000	148	3,392
Feb	56.300	+0.600	56.400	56.000	65	738
Total					5,415	33,989

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	60.725	+0.125	61.200	60.400	239	1,309
Jul	57.800	-0.425	58.850	57.500	1,367	4,446
Aug	54.825	-0.325	56.100	54.750	115	1,171
Sep	49.975	-	51.250	49.800	3	29
Nov	45.150	-	45.700	46.125	26	235
Total					1,761	7,186

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME

	Jun	Sep	Jun	Sep
1350	33	73	18	32
1400	11	47	44	54
1450	2	28	85	85

■ COPPER (Grade A) LME

	Jun	Sep	Jun	Sep
1600	129	154	5	34
1700	54	93	30	72
1800	15	52	90	128

■ COFFEE LIFFE

	Jul	Sep	Jul	Sep
1850	76	122	67	162
1900	56	111	98	221
1950	43	102	135	282

■ COCOA LIFFE

	Jul	Sep	Jul	Sep
1100	42	71	21	31
1125	30	57	34	42
1150	20	46	49	58

■ BRENT CRUDE IPE

	Jun	Jul	Jun	Jul
1450	22	-	1	31
1500	6	62	8	-
1550	-	29	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel) +or-

		+or-
Dubai	$13.07-3.17x	+0.030
Brent Blend (dated)	$14.51-4.55	+0.380
Brent Blend (Jun)	$14.91-4.95	+0.180
W.T.I.	$15.32-5.34x	+0.100

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$167-169	+1
Gas Oil	$134-136	
Heavy Fuel Oil	$67-69	
Naphtha	$151-153	+3
Jet fuel	$153-154	+2.5
Diesel	$138-140	

■ NATURAL GAS (Pence/therm)

Bacton (Jun)	8.15-8.25	-0.10

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

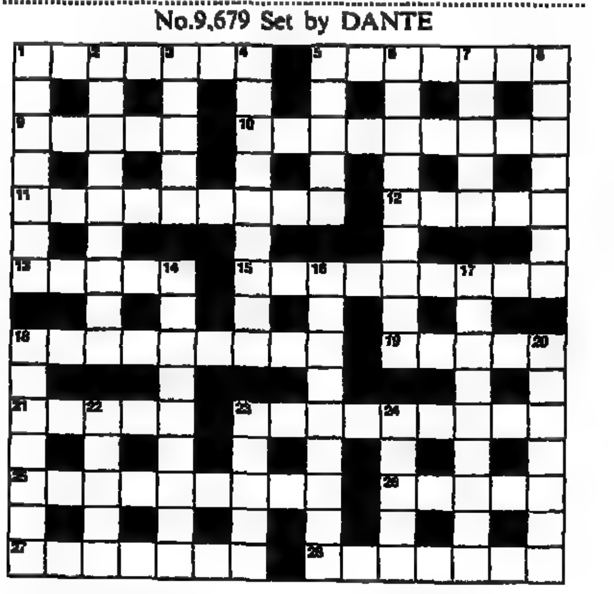
Gold (per troy oz)♣	$301.15	+1.30
Silver (per troy oz)♣	579.50c	[illegible]
Platinum (per troy oz.)	$385.50	-0.50
Palladium (per troy oz.)	$321.00	-4.50
Copper	87.0c	
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	22.28r	
Tin (New York)	276.5	
Cattle (live weight)	84.03p	+2.35*
Sheep (live weight)	127.60p	+11.95*
Pigs (live weight)†	67.38p	+1.88*
Lon. day sugar (raw)	$233.30	+3.10
Lon. day sugar (wte)	$268.00	+2.80
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (May)♥	46.75p	
Rubber (Jun)♥	47.75p	
Rubber (KL RSS No1)	298.00m	
Coconut Oil (Phil)§	730.0y	-10.0
Palm Oil (Malay.)§	[illegible]	
Copra (Phil)§	$410.0y	
Soyabeans (US)	182.0	+8.0
Cotton Outlook'A' Index	63.90	
Wooltops (64s Super)	367p	+1

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. y Jun/Jul. x Jun. ♥London Physical. § CIF Rotterdam. ♣ Bullion market close. * Change on week. †Based on 652 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,679 Set by DANTE



ACROSS

1 Understatement in T.S. Eliot play (7)
5 A bank loan has usually got to be obtained (7)
9 Quiet joke about small uprising in S. Africa (5)
10 Restore privileges to soldiers in the country (9)
11 Dangerous situation that frightened buccaneer to death (5,4)
12 The remains of a sporting trophy (5)
13 Two score in Rome, we hear, and do better (5)
15 Grows wrinkled (9)
18 Plan game anew after false start (9)
19 Many ways to show feeling (5)
21 Brought back a block of wood (5)
23 Disturbing events one is acutely aware of (9)
25 Noticing nothing unusual in disguise (9)
26 Live in the past (5)
27 Joined by the sailor – or the parson (7)
28 He may be prepared to sell his land (7)

DOWN

1 I'll bake a pleasing confection (7)
2 Performer can depart in confusion (3-6)
3 Twitch and begin to wake, perhaps (5)
4 Very strong sticking-plaster (9)
5 Tongue of land surrounding a lake that's overflowed (5)
6 They may click at dances (9)
7 Come up to stretch between bends (5)
8 Comes into line for clothes (7)
14 Teach girl in an idle form (9)
16 Start of the strike is a revelation (6,3)
17 Emotion excited men into it (9)
18 Argues one's case but throws in the towel (7)
20 His choice will get cross (7)
22 Near-beer place? (5)
23 Reacted like a startled horse and threw (5)
24 Test side batting needs help in upset (5)

Solution to Saturday's prize puzzle on Saturday May 23.
Solution to yesterday's prize puzzle on Monday May 25.

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

Fidelity Currency Funds Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (FSA RECOGNISED)

Royal Bk of Canada O/S Fd Mgrs Ltd

GUERNSEY (REGULATED)(**)

IRELAND (FSA RECOGNISED)

FT Fund Managers (Ireland) Ltd (z)

Lazard Investment Funds Ltd - Contd.

Morgan Grenfell Investment Funds Ltd (z)

Baring Mutual (Ireland) Ltd

Blackstone Franks Managers Ireland Ltd

Capital Vision Fund Plc

IRELAND (REGULATED)(**)

Yamaichi Samsung Dynamic Korea Fund

Yaki Korea Fund

Yaki Taiwan Fund

ISLE OF MAN (FSA RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (FSA RECOGNISED)

JERSEY (REGULATED)(**)

AIB Govett Management (Jersey) Limited

Bank of Scotland Fund Managers (Jersey) Ltd

Barclays Global Investors Jersey Ltd

LUXEMBOURG (FSA RECOGNISED)

FT MANAGED FUNDS SERVICE

Offshore Funds and Insurances

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Bank Von Ernst & Cie AG

Marktgasse 63/65, 3001 Berne, Switzerland 0041 313299111

	Selling Price	+or-
UK Equity	£21.45	—
UK Smaller Co's Equity	£27.43	+0.18
Nth American Equity	$21.14	+0.29
US Smaller Co's Equity	$27.82	+0.20
Pacific Basin Equity	$10.18	+0.13
Japanese Equity	Y453	—
European Equity	DM94.05	+4.00
Swiss Equity	SFr31.74	+0.11
[illegible]	[illegible]	[illegible]

For Banque Indosuez see Credit Agricole Indosuez

Frontrunner I (a)

	Selling Price
European Value Fd	Ecu202.77
Global Bond Fd	[illegible]
Global Bond Fd	DM151.37
Sterling Bond Fd	£214.57
Danish Bond Fd	DKr195.71
Swedish Bond Fd	SKr143.33
German Bond Fd	DM111.80
Dollar Bond Fd	$108.29
Scandinavian Value Fd	Ecu205.93
Far East Value Fd	$98.48
North American Value Fd	$178.11
Danish Kroner Reserve	DKr114.75
Swedish Kroner Reserve	SKr120.85
German Mark Reserve	DM110.77
US Dollar Reserve	$105.26
ECU Reserve	Ecu114.02
[illegible]	[illegible]
European Equity Fd	Ecu131.41

GT Global

	Selling Price	Buying Price	+or-	Yield
GT Europe A	[illegible]	113.97	+1.34	0.00
GT US Small Cos A	[illegible]	31.68	+0.34	0.00
GT US Small Cos A	[illegible]	31.20	+0.21	0.00

Barclays Diversified Portfolio (z)

Barclays Inv Funds (Luxembourg)

HSBC Investment Funds Luxembourg SA (a)

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

OFFSHORE INSURANCES

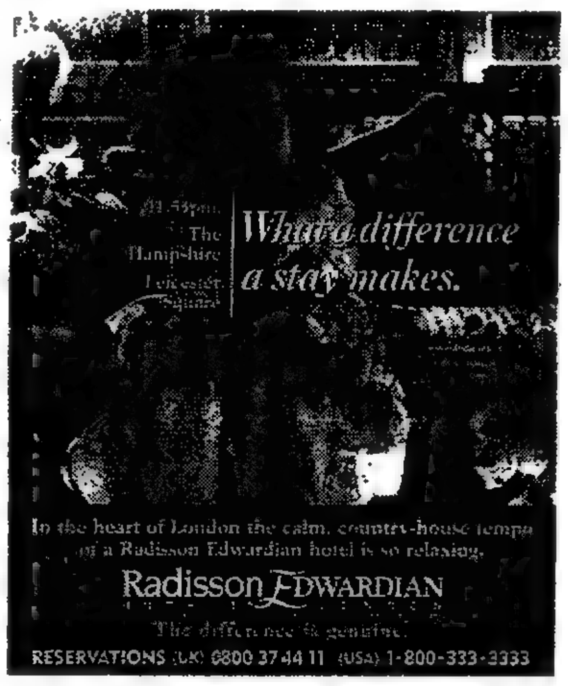
[illegible]

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (+44 171) 873 4378 for more details.

OTHER OFFSHORE FUNDS



LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING MATS. & MERCHANTS

CHEMICALS

CONSTRUCTION

CONSTRUCTION - Continued

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Continued

ENGINEERING, VEHICLES

ENGINEERING, VEHICLES - Continued

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Continued

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS & TEXT

INSURANCE

INSURANCE - Continued

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Continued

INV TRUSTS SPLIT CAPITAL

ملحق من الاصل

هيئة امن الاصول

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Continued

MEDIA - Continued

PHARMACEUTICALS - Continued

RETAILERS, GENERAL - Continued

TRANSPORT - Continued

AIM - Continued

PROPERTY

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

SUPPORT SERVICES

WATER

OIL EXPLORATION & PRODUCTION

AMERICANS

AIM

INVESTMENT COMPANIES

CANADIANS

OIL, INTEGRATED

OTHER FINANCIAL

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
Anglo Am Ind R		[illegible]	[illegible]	[illegible]	[illegible]	-	[illegible]	10.4
Barlow R		[illegible]	[illegible]	[illegible]	[illegible]	-	[illegible]	[illegible]
Gold Flds Prop R		[illegible]	+13½	167	[illegible]	-	[illegible]	[illegible]
SA Breweries R		[illegible]	[illegible]	[illegible]	[illegible]	-	[illegible]	-
Standard Bank R		[illegible]	[illegible]	[illegible]	[illegible]	-	[illegible]	-
Tiger Oats		[illegible]	[illegible]	[illegible]	[illegible]	-	[illegible]	[illegible]
Tongaat-Hulett R		722	+7	[illegible]	[illegible]	-	[illegible]	[illegible]

TRADED INDEX SECURITIES

	Notes	Price	+ or -	52 week high	low	Volume '000s	Yld Gr's	P/E
FTSE 100 TRAINS		[illegible]	...	[illegible]	2472	-	-	-

PROPERTY - Continued

SUPPORT SERVICES - Continued

LEISURE & HOTELS

PAPER, PACKAGING & PRINTING

RETAILERS, FOOD

LIFE ASSURANCE

RETAILERS, GENERAL

TELECOMMUNICATIONS

MEDIA

TOBACCO

TRANSPORT

PHARMACEUTICALS

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by [illegible], part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. For FTSE 100 index constituents and reserves contained in the Trading Volume table on the LSE page last trade prices at or prior to 4.30pm market close are shown, as these shares are now traded on the Stock Exchange Electronic Trading System ("SETS"). Highs and lows are based on intra-day mid-prices/last trades over a rolling 52 week period.

Trading Volumes are end of day accumulated totals. Dashes indicate that either no trade has taken place during the day or the data is not available for those particular securities. Volumes shown for foreign securities are based on London trading.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price-earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1495 a year for each security shown, subject to the Editor's discretion.

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An international service is available for callers outside the UK, annual subscription £250 stg. Please consult your financial adviser and verify financial pricing information obtained via FT Cityline before making any investment decision.

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LONDON STOCK EXCHANGE

Wall Street mergers underpin Footsie rally

MARKET REPORT

By Philip Coggan, Markets Editor

A merger-inspired surge on Wall Street, where the Dow Jones Industrial Average jumped more than 100 points in the first few minutes of trading, allowed the FTSE 100 index to regain the 6,000 level yesterday.

The London market had its own modest bout of takeover speculation, although talk of an Asda-Safeway deal was dismissed by both parties. And shares in EMI were the sharpest Footsie fallers, after Friday's announcements that talks with a suitor had been abandoned.

The market traded rather listlessly at the start of the day, with Footsie reaching a low of 5,957.4, down 12.4, after the first hour of trading. But news of the US mergers, and the reaction on Wall Street, allowed shares to rocket ahead in the afternoon, carrying the leading index to close 58.5 higher at 6,028.3.

The junior indices, which have been lifted recently by the decline in sterling, chalked up another set of closing records: the FTSE 250 gained 31.3 to 5,772.4 and the SmallCap rose 24.3 to 2,728.9. The pound slipped slightly once more yesterday.

Meanwhile the FTSE All-Share index, in which Footsie has a heavy weighting, gained 25.2 to 2,844.4, within three points of its all-time closing high, set on April 6.

Robert Buckland, UK strategist at HSBC Securities, said the market was well supported by liquidity and by the fall in bond yields over the past 18 months. "But the bond markets are starting to run out of steam. The next 1,000 points are going to be harder work than the last 1,000."

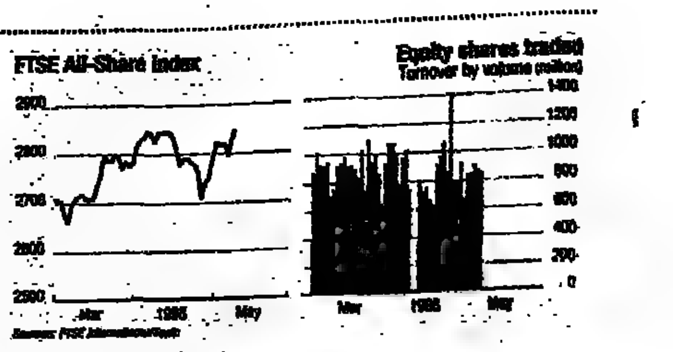
The latest Merrill Lynch/Gallup survey of UK fund managers found bulls and bears of UK equities exactly balanced, after bears had predominated in April. The managers continue to be positive on Europe and on UK and international bonds; they are sharply negative on Japan and the Pacific basin.

The day's economic news was broadly in line with expectations, leaving the 10-year gilt virtually unchanged on the day. There was little sign of inflation at the producer level, with April's input (raw material) prices down 0.9 per cent on the month and 9 per cent on the year while output (factory gate) prices showed only a 1 per cent annual rise.

Industrial production jumped 0.7 per cent on the month (thanks to a weather-related rise in energy use) but manufacturing output was flat. All told, manufacturing activity fell slightly in the quarter, the second drop in succession, putting the sector technically in recession.

"Overall, these figures add little to the base rate debate," said Michael Saunders, UK economist at Salomon Smith Barney. "Manufacturing output is probably weak enough to stop rates from rising but the authorities will be reluctant to cut rates until there is a clearer downturn in domestic demand and service sector activity and in core retail price inflation."

Volume was 858.6m shares at the 6pm count, of which 67 per cent was in non-Footsie stocks. The first day of trading in Thomson Travel contributed around a seventh of the total, while jewellery group Signet was also active.



Indices and ratios

FTSE 100	6028.3	+58.5
FTSE 250	5772.4	+31.3
FTSE 350	2917.8	+25.9
FTSE All-Share	2844.40	+25.17
FTSE All-Share yield	2.75	2.76
FT 30	3920.3	+28.3
FTSE Non-Fins p/e	23.36	23.18
FTSE 100 Fut Jun	6044.0	+53.0
10 yr Gilt yield	5.91	5.91
Long gilt/equity yld ratio	2.16	2.13

Best performing sectors

1	Electronic & Elec	+3.2
2	Oil Exploration	+2.7
3	Extractive Inds	+2.2
4	Tobacco	+2.1
5	Pharmaceuticals	+2.1

Worst performing sectors

1	Water	-0.5
2	Insurance	-0.5
3	Electricity	-0.3
4	Distributors	-0.2
5	Other Financial	-0.2

EMI faces the music

COMPANIES REPORT

By Steve Thompson and Peter John

The flurry of takeover news said to be driving the market was not exclusively positive.

EMI was a substantial casualty and the weakest performer in the FTSE 100 as the market was given its first chance to respond to the announcement, after the market closed on Friday, that takeover talks with an unnamed group, had been called off.

It is widely assumed that the talks involved Seagram, the Canadian drinks-to-leisure group and that the talks foundered after the latter failed to make an offer by Friday.

And speculation in the stock market suggested Seagram may have turned its attention to PolyGram, the Dutch music company, where it was also suggested Philips had put its 75 per cent share stake up for sale.

EMI shares fell at the outset, hitting a session-low of 524p, down over 8 per cent, but rallied quickly to touch 538p before slipping back again to finish a busy session a net 38 or 6.6 per cent off at 535p.

Dealers said Friday's news was not a total surprise. "The shares had been on the retreat all week. The longer the talks went on the more the uncertainty grew," said one dealer.

Responding to the breakdown of the talks, the media team at Merrill Lynch downgraded its stance on EMI to "reduce" and said: "EMI's share price has been driven by takeover speculation. They are now left without this support." Merrill has a share price objective of 490p, which still represents "a generous 10 per cent premium to the UK market".

Courtaulds, the chemicals group being bid for by Akzo Nobel of the Netherlands, spiked above the offer price as it revealed third-party interest.

It announced it had "received a preliminary approach from another party that may be interested in making an offer at a level above that proposed by Akzo".

The impact was a jump of 23 to 464p, a premium of 14 to the bid price and the second biggest rise among FTSE 250 stocks.

The two principal questions were "Who is the third party?" and "How much will it be prepared to pay?"

On the identity, the consensus appeared to favour two US groups – PPG, one of the world's biggest paint companies, and DuPont, the US conglomerate. However, Valspar and Sherwin Williams of the US were mentioned, as were Nippon and Kansai of Japan.

US interest is underscored by hefty share buying over the past year, in which Courtaulds has seen US holdings more than double to above 20 per cent.

Its biggest shareholder is Franklin Templeton, one of the top five US fund managers, which had 15.5 per cent in March. The other big shareholders are Schroders, PDFM and Prudential which have more than 20 per cent between them.

As for the price, Jeremy Chantry of Credit Lyonnais said a bid above 500p looked stretched.

But Martin Evans of Sutherlands argued that the Akzo offer "seriously undersells the strategic value of Courtaulds".

Oil exploration stocks were among yesterday's gushers as positive articles in the weekend press set a trend continued by a very bullish broker appraisal.

Lasmo ended the day 7 higher at 271p with one newspaper saying prospects in Pakistan were much greater than previously believed.

And Enterprise closed 23 up at 556p on anticipation of good news from one of its wells in the Gulf of Mexico.

Thomson debut

Thomson Travel's stock market debut surprised even the most bullish observers, the shares racing well beyond the expected 15p-20p initial premium, as institutions and private investors scrambled to buy stock.

The shares were priced at 170p, the top of the 140p-170p range set two weeks ago, and hit 210p shortly after the opening, before reacting on flurries of profit-taking to finish at 193½p, still a hefty 14 per cent premium.

The institutional offer was oversubscribed six times and the retail offer was three times oversubscribed.

Thomson Travel shares were by far and away the most active on the London market yesterday, with 110m changing hands.

Leisure specialists said the strength in the share price was a reflection of the scaling down of the stock available to UK institutions. "Clearly the UK institutions are underweight," said one analyst.

Other holiday companies attracted keen interest with First Choice, the third largest UK holidays group after Thomson and Airtours, edging up 7 to 168½p after unveiling a well-received acquisition in Canada.

Airtours, on the other hand, suffered from switching and closed a net 21 lower at 510p. "The slide in Airtours is puzzling. After Thomson's great success they should have moved up," said an analyst.

News of the latest multi-billion dollar merger in the US, between SBC Communications and Ameritech, re-awakened the prospects of further consolidation in global telecoms.

Cable & Wireless finished the session the best performer in the FTSE 100, its shares climbing 33 to 677p, closely followed by Orange, which jumped 20½p to 455p, and Vodafone, up 20 to 690p.

"It seems we're getting a resurgence of the speculative froth that died down recently," said one telecoms specialist.

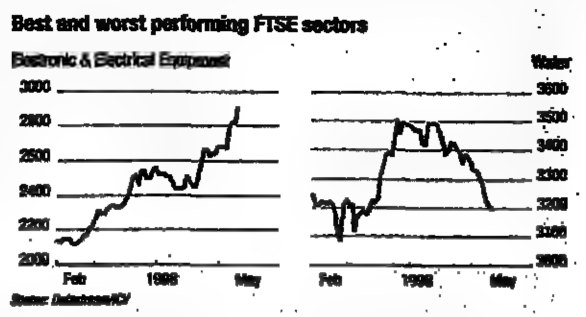
Irish paper group Jefferson Smurfit lifted 16 to 240p after the group announced it had successfully closed a merger deal with Stone Container of the US.

Irish stockbroker NCB published a note highlighting a post-merger share price around current levels but a target of up to I£3.40 (280p) and Goldman Sachs reiterated its "outperform" rating.

Charter, the engineering group, shot to the top of the FTSE 250 performance league, as Panmure Gordon moved the stock on to its buy list, taking the view that it has been left behind after the recent upsurge in engineering and manufacturing stocks.

Panmure's John Nuttall said the engineering sector had risen 20 per cent since January 1 and the diversified industrial sector by 18.5 per cent, while Charter has underperformed the market by 18.5 per cent. Charter shares ended 37½ up at 740p.

Best and worst performing FTSE sectors



FT 30 INDEX

	May 11	May 8	May 7	May 6	May 5	Yr ago	*High	*Low
FT 30	3920.3	3892.0	3865.4	3882.7	3874.8	3014.3	3920.3	3376.2
Ord. div. yield	2.79	2.82	2.83	2.82	2.82	3.64	[illegible]	2.79
P/E ratio net	[illegible]	25.18	25.06	25.16	[illegible]	18.25	25.41	19.80
P/E ratio nil	25.19	24.95	24.84	24.96	24.93	18.06	25.19	[illegible]

FT 30 since compilation: high 3920.3 11/05/98; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9	10	11	12	13	14	15	16	High	Low
3895.0	3894.2	3895.4	3912.9	3913.5	3916.9	3910.6	3913.6	3921.2	3927.3	3876.2

STOCK MARKET TRADING DATA

	May 11	May 8	May 7	May 6	May 5	Yr ago
SEAQ bargains	69,965	[illegible]	60,570	62,121	63,152	63,069
Equity turnover (£m)†	-	na	2853.5	4101.3	2509.3	2554.6
Equity bargains†	-	na	37,250	41,495	45,287	52,998
Shares traded (m)†	-	na	707.4	916.6	719.3	728.2
Total market bargains‡	-	98,296	48,620	50,561	54,031	na
Total turnover (£m)‡	-	5710.5	3611.6	5348.0	3317.9	na
Total shrs traded (m)‡	*858.6	1320.7	[illegible]	1154.5	907.2	na
Tradepoint turnover (£m)	70.1	29.2	31.3	27.7	86.5	1.8
Tradepoint shrs traded	14,490	7,083	7,906	7,875	15,218	372

†Excluding intra-market and overseas turnover but including Crest turnover. *UK only total at 6pm. ‡ UK plus intra-market turnover.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	1,374	Total Highs	371	Total contracts	28,704
Total Falls	329	Total Lows	30	Calls	14,516
Same	1,296			Puts	14,188

May 11 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	6002.0	6044.0	+53.0	6063.0	5978.0	14287	153331
Sep	6113.5	6120.5	+55.0	6113.5	6113.5	100	10681
Dec		6202.0	+53.0			0	250

FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun		6000.0	+23.0			0	6381

FTSE 100 INDEX OPTION (LIFFE) (*6022) £10 per full index point

[illegible]

EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

[illegible]

LONDON RECENT ISSUES: EQUITIES

[illegible]

FTSE GOLD MINES INDEX

	May 11	% chg on day	May 7	Year ago	Gross div yield %	P/E ratio	52 week High	Low
Gold Mines Index (32)	1232.41	+1.6	1214.85	1370.57	7.90	-	1540.93	881.23
Regional Indices								
Africa (14)	1324.80	+2.4	1293.48	1780.43	4.80	28.31	1864.25	921.78
Australasia (7)	1417.38	-2.5	1449.01	1774.86	2.41	18.80	1823.74	933.83
North America (11)	1196.85	+1.7	1169.51	1406.85	1.06	45.59	1574.16	864.86

 [illegible]

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

[illegible]

TRADING VOLUME

Major Stocks yesterday

[illegible]

Hourly movements

[illegible]

FTSE INTERNATIONAL

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 11 / Sch)

BELGIUM/LUXEMBOURG (May 11 / Frs.)

CZECH REP (May 11 / Koruna)

DENMARK (May 11 / Kr)

FINLAND (May 11 / Mka)

FRANCE (May 11 / Frs.)

GREECE (May 11 / Drachma)

ITALY (May 11 / Lira)

GERMANY (May 11 / Dm.)

NORWAY (May 11 / Krone)

POLAND (May 11 / Zloty)

PORTUGAL (May 11 / Escudo)

SPAIN (May 11 / Pts.)

NETHERLANDS (May 11 / Fls.)

SWEDEN (May 11 / Kronor)

SWITZERLAND (May 11 / Frs.)

TURKEY (May 11 / TL Lira)

PACIFIC

JAPAN (May 11 / Yen)

AUSTRALIA (May 11 / Aust$)

HONG KONG (May 11 / H.K.$)

INDONESIA (May 8 / Rupiah)

MALAYSIA (May 8 / MYR)

NEW ZEALAND (May 11 / NZ $)

SINGAPORE (May 8 / S$)

SOUTH KOREA (May 11 / Won)

TAIWAN (May 11 / TW $)

THAILAND (May 8 / Baht)

AMERICAS

CANADA

TORONTO (May 11 / Can $)
4 pm close

MONTREAL (May 11 / Can $)
4 pm close

MEXICO (May 11 / Peso)
12.30 pm

AFRICA

SOUTH AFRICA (May 11 / Rand)

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY MAY 8 1998 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY MAY 7 1998 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (72)	207.09	0.5	187.62	173.62	190.43	218.18	0.3	3.61	206.15	185.70	173.36	189.03	215.61	243.87	190.26	228.81
Austria (23)	240.77	1.8	218.14	201.86	221.41	221.27	1.8	1.49	236.85	213.35	199.18	217.19	217.06	240.77	181.60	187.20
Belgium (28)	331.30	0.6	300.18	277.76	304.65	298.13	0.9	2.43	329.44	296.76	277.04	302.09	295.53	335.66	234.33	245.12
Brazil (26)	245.78	0.9	222.67	206.06	226.01	517.95	0.9	1.90	243.56	219.41	204.82	223.34	513.20	322.44	184.94	259.06
Canada (120)	246.15	1.6	223.01	206.37	226.36	255.72	1.3	1.57	242.18	218.16	203.66	222.07	252.51	248.78	197.23	197.23
Denmark (34)	506.46	-0.2	458.88	424.64	465.75	464.27	0.0	1.30	507.67	457.31	426.91	465.52	464.27	521.81	371.13	371.13
Finland (26)	442.50	0.1	400.90	370.99	406.91	409.24	0.4	1.83	442.14	398.29	371.81	405.43	407.18	448.80	263.91	263.91
France (79)	313.51	-0.3	284.04	262.85	288.30	291.73	0.0	2.02	314.50	283.31	264.48	288.39	291.73	317.11	213.42	220.13
Germany (58)	285.68	1.0	258.81	239.49	262.68	262.68	1.3	1.25	282.86	254.81	237.87	259.38	259.38	290.93	204.89	206.70
Greece (37)	276.05	-2.3	250.10	231.44	253.85	609.74	-2.3	1.52	282.48	254.47	237.55	259.03	624.08	298.79	278.05	–
Hong Kong, China (66)	302.12	0.5	273.72	253.29	277.82	300.58	0.5	5.29	300.54	270.73	252.73	275.59	299.02	580.03	292.93	486.57
Indonesia (27)	40.98	0.7	37.13	34.36	37.68	233.80	-1.4	3.02	40.69	36.65	34.22	37.31	237.12	254.90	27.67	233.04
Ireland (16)	548.52	-0.1	498.96	459.88	504.40	544.27	0.0	1.78	549.30	494.82	461.92	503.69	544.27	560.44	336.68	336.89
Italy (54)	167.68	1.9	151.92	140.58	154.19	218.48	2.2	1.22	164.47	148.16	138.31	150.81	213.70	177.15	86.93	89.10
Japan (480)	93.34	0.1	84.57	78.26	85.84	78.26	-0.2	1.01	93.22	83.97	78.39	85.48	78.39	141.12	88.52	124.04
Malaysia (107)	167.43	-0.4	151.69	140.37	153.96	245.68	-1.3	2.81	168.12	151.45	141.38	154.16	248.82	545.67	113.56	545.67
Mexico (29)	1644.69	0.3	1490.10	1378.91	1512.41	15247.10	0.1	1.55	1639.94	1477.28	1379.07	1503.78	15239.78	1901.98	1364.81	1364.81
Netherlands (19)	511.81	1.4	463.71	429.11	470.65	465.61	1.7	1.98	504.78	454.71	424.48	462.87	457.80	521.95	361.78	361.78
New Zealand (14)	70.36	0.7	63.74	58.99	64.70	68.49	0.4	4.77	69.87	62.94	58.76	64.07	68.21	96.47	69.87	87.30
Norway (38)	345.57	-0.5	313.09	289.73	317.78	346.91	-0.2	1.81	347.24	312.80	292.01	318.41	347.45	374.64	281.62	299.89
Philippines (22)	95.68	1.9	86.68	80.22	87.98	187.87	1.0	1.11	93.93	84.62	79.00	86.14	186.08	173.10	57.54	180.24
Portugal (18)	284.28	-0.3	257.56	238.34	261.41	353.16	0.2	1.07	285.01	256.74	239.68	261.35	352.39	299.39	284.28	–
Singapore (42)	196.04	0.8	177.62	164.36	180.28	146.17	0.4	2.05	194.44	175.15	163.51	178.30	145.65	401.75	144.01	380.83
South Africa (43)	326.70	0.2	295.99	273.90	300.42	361.50	0.1	2.46	326.08	293.74	274.21	299.00	361.02	364.24	227.86	360.96
Spain (31)	374.55	-0.1	339.34	314.02	344.43	428.41	0.3	1.79	374.75	337.58	315.12	343.62	425.29	396.69	236.28	237.88
Sweden (49)	607.12	-0.1	550.08	509.01	558.30	682.90	0.1	1.71	607.74	547.46	511.07	557.28	682.59	610.82	437.98	437.98
Switzerland (30)	408.01	0.1	369.65	342.08	375.19	373.68	0.7	1.08	407.82	367.19	342.79	373.78	371.25	409.84	281.04	281.04
Thailand (39)	23.99	-1.1	21.74	20.11	22.06	35.94	-1.9	8.89	24.26	21.86	20.40	22.25	36.65	69.48	13.10	69.48
United Kingdom (206)	384.40	0.0	348.26	322.28	353.48	348.26	0.6	2.83	384.50	346.36	323.34	352.58	348.36	401.84	293.10	293.61
USA (635)	453.16	1.1	410.56	379.93	416.71	453.16	1.1	1.42	448.01	403.57	378.74	410.81	448.01	462.18	332.13	332.13
Americas (810)	410.70	1.2	372.10	344.33	377.67	346.93	1.1	1.43	405.59	365.72	341.41	372.28	343.01	418.95	303.74	303.74
Europe (748)	357.50	0.3	323.90	299.73	328.75	336.41	0.7	1.89	356.34	321.00	299.66	326.76	333.95	363.50	255.08	255.08
Nordic (149)	530.68	-0.1	480.80	444.92	488.00	526.57	0.1	1.68	531.32	478.62	446.80	487.21	526.11	535.75	378.44	378.44
Pacific Basin (669)	102.59	0.2	92.95	86.01	94.34	86.78	-0.1	1.71	102.38	92.23	86.10	93.88	86.85	158.99	95.32	142.81
Euro-Pacific (1617)	208.65	0.3	189.22	175.10	192.05	180.66	0.5	1.91	208.24	187.59	175.12	190.95	179.96	216.04	172.03	189.63
North America (755)	440.03	1.2	398.67	368.92	404.64	439.92	1.1	1.42	434.65	391.79	365.75	398.82	434.90	448.61	323.86	323.86
Europe Ex. UK (540)	332.37	0.5	301.13	278.66	305.64	320.43	0.8	1.58	330.71	297.91	278.11	303.25	317.80	334.81	228.74	228.74
Pacific Ex. Japan (389)	187.02	0.5	169.44	156.80	171.98	189.64	0.2	4.11	186.18	167.71	156.56	170.72	189.23	318.98	161.31	302.69
World Ex. US (1835)	213.02	0.4	193.00	178.60	195.89	188.49	0.5	1.90	212.25	191.20	178.49	194.63	187.49	220.18	175.30	193.00
World Ex. UK (2262)	281.51	0.9	255.05	236.02	258.87	256.60	0.9	1.61	279.12	251.43	234.72	255.94	254.36	287.02	231.87	231.87
World Ex. Japan (1990)	388.06	0.8	351.58	325.35	356.85	380.81	1.0	1.72	384.85	346.68	323.63	352.90	377.19	394.39	295.12	295.12
The World Index (2470)	290.24	0.8	262.95	243.33	266.89	284.86	0.8	1.65	288.04	259.47	242.22	264.12	282.64	296.57	237.14	237.14

Emerging markets: IFC investable indices

4 pm close May 11

NEW YORK STOCK EXCHANGE PRICES

Price data supplied by Extel, part of FT Information

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.

d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z sales in full. ¶ Dealings suspended.

GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	May 8	May 7	May 6	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9055.15	8976.68	9054.65	9192.66 (4/5)	7580.42 (9/1)	9192.66 (4/5/98)	41.22 (8/7/32)
Home Bonds	104.60	104.90	104.91	105.48 (15/1)	104.51 (5/5)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3424.92	3384.84	3380.75	3686.02 (16/4)	3194.36 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	282.38	281.49	282.64	291.18 (2/4)	262.66 (9/1)	291.18 (2/4/98)	16.53 (8/7/32)

DJ Ind. Day's High 9143.09 (9102.98) Low 8951.27 (8914.90) (Theoretical)
Day's High 9095.75 (9056.85) Low 8971.20 (8965.22) (Actual)

Standard and Poors	May 8	May 7	May 6	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1108.14	1095.14	1104.92	1130.54 (22/4)	927.69 (9/1)	1130.54 (22/4/98)	4.40 (1/6/32)
Industrials‡	1296.70	1279.38	1291.52	1311.48 (22/4)	1077.40 (9/1)	1311.48 (22/4/98)	3.52 (30/6/32)
Financial‡	132.38	131.18	132.24	140.63 (14/4)	110.65 (9/1)	140.63 (14/4/98)	7.13 (4/9/74)
Others							
NYSE Comp.	575.72	570.22	574.57	585.62 (22/4)	487.47 (9/1)	585.62 (22/4/98)	4.64 (25/4/42)
Amex Comp	744.23	742.25	743.33	753.87 (22/4)	646.41 (12/1)	753.87 (22/4/98)	524.20 (16/7/96)
NASDAQ Cmp	1864.37	1835.14	1856.68	1917.81 (22/4)	1503.22 (9/1)	1917.81 (22/4/98)	54.87 (3/10/74)
Russell 2000	479.51	475.86	479.37	491.41 (21/4)	410.89 (12/1)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	May 8	May 1	Apr 24	Year ago
Dow Jones Ind. Div. Yield	1.58	1.54	1.55	1.71

	May 8	Apr 29	Apr 22	Year ago
S & P Ind. Div. yield	1.33	1.35	1.29	1.72
S & P Ind. P/E ratio	30.86	30.29	[illegible]	23.33

US DATA

MARKET ACTIVITY

Volume (million)	May 8	May 7	May 6
NYSE	587.890	585.548	605.540
Amex	28.813	29.596	28.320
NASDAQ	730.301	725.205	762.111

NYSE	May 8	May 7	May 6
Issues Traded	3,483	3,481	3,507
Rises	1,800	1,006	1,154
Falls	1,110	1,938	1,803
Unchanged	573	537	550
New Highs	65	53	80
New Lows	27	33	24

NYSE TRADING ACTIVITY

Volume : 561,909,000

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Chrysler	18,531,000	53⅞	+⅛
Compaq	9,182,200	32¼	+½
Woolwrth	5,845,000	21⅛	−1
SthyMarks	5,768,100	24⅞	−⅛
AT&T	5,738,700	57⅛	−⅛
PhMorr	[illegible]	38⅝	−⅛
Pepsico	4,753,700	38⅞	+⅞
Cendant	4,600,000	24	+⅛
Unisys	3,986,200	24½	+1½
Tenetr	3,848,100	38⅝	−⅛

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Vishay Int	23⅛	+2⅜	+11.0
Luxottica	17⅝	+1⅝	+9.4
Genrad Inc	20⅞	+1½	[illegible]
Wallnaker	16	+1⅛	+7.6
Downs			
Hanstleman	10⅝	−⅝	−6.7
KnstmnsAr	27⅝	−1⅛	−4.8
Woolwrth	21⅛	−1	−4.5
Ducommun	33⅝	−1⅝	−4.3

NASDAQ TRADING ACTIVITY

Volume :728,242,800

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Micsft	24,019,100	85¾	+2¾
Intel	17,072,100	84⅛	+3⅛
DellCmp	13,958,300	81⅝	+5⅝
AscendCom	9,179,400	45⅛	+3⅛
3Com	7,535,000	31⅝	−⅛
WrldCo	7,347,500	43⅛	+⅛
CiscoSys	5,917,200	75⅝	+⅛
MCI Cm	5,684,000	50⅛	+⅛
AdvTiss	[illegible]	10⅞	+2⅛
Oracle	4,776,400	26⅝	+⅛

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
AdvTiss	10⅞	+2⅛	+23.2
Caplain	14⅞	+2	+15.9
MirrorC	11⅞	+1⅛	+13.9
Astron	28⅝	+3⅛	+12.3
Downs			
QckRespSrv	30⅝	−8⅝	−20.9
PrestTec	27⅜	−3⅝	−11.8
SignRex	17	[illegible]	−10.5
PhySale	19⅝	−1⅝	−8.8

Dow Jones

FTSE Eurotop 300

May 1998

JAPAN

	May 11	May 8	May 7	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	15381.90	15149.00	15143.03	17264.34	14664.44	38915.9	85.25

Day's high 15433.67 Day's low 15213.34

TOKYO TRADING ACTIVITY

Volume : 273,000,000

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Nissan Mtr	11,992,000	434	+39
Nip Steel	8,199,000	219	+4
Haseko	7,118,000	92	+15
BkTk-Mitsbl	6,640,000	1523	−14
Sumitomo Mtl	4,713,000	222	+2
Sakura Bk	3,392,000	421	+18
LTCB	3,182,000	202	+8
Toshiba	2,872,000	602	+18
Fuji Bank	2,818,000	895	+43
Kobe Steel	2,758,000	108	+4

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Oval Corp	225	+45	+25
Marusho	112	+20	+21.7
Jpn Bstr Mfg	205	+35	+20.6
Komatsu Cnst	210	+35	+20
Downs			
Mitsui Wrf	104	−186	−64.1
Heiwa Ppty	150	−25	−14.3
Meisei Elec	190	−26	−12
Chuo Bld Ind	95	−13	−12

FRANCE

	May 11	May 8	May 7	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	4017.24	(c)	3906.35	4017.24	2802.54	4017.24	984.61

Day's high 4017.24 Day's low 3968.84

PARIS TRADING ACTIVITY

Volume : [illegible]

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Usinor	2,441,211	100.2	+2.65
Alcatel Alst	1,825,568	1257	+78
France Tel	1,492,879	328.5	+18.6
Rho Pinc A	1,315,016	316.8	+6.8
Axa-UAP	1,185,379	702	−3
Bq Nat Paris	1,179,446	548	+25
Total B	790,186	748	+22
Lagardere	633,441	237	+7.4
Renault	588,256	314.6	+14.9
Michelin B	565,618	371.5	+9.3

BIGGEST MOVERS

1 & 1 AG	Close price	Day's change	Day's chge %
Ups			
FFP Fnc Fin	599	+98	+19.6
Sodecco	12.9	+2	+18.3
Cie de Suez	26.45	+2.45	+10.2
Financor	35.9	+3.3	+10.1
Wanter	154	+14	+10
Downs			
Cred Lyn Cert	623	−53	−7.8
Maurel et Cie	931	−69	−6.8
Castanaire-Bl	528	−37	−6.5

GERMANY

	May 11	May 8	May 7	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	5341.69	5257.58	5186.23	5442.00	4087.28	5442	931.18

Day's high 5347.80. Day's low 5305.56

FRANKFURT TRADING ACTIVITY

Volume : [illegible]

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Commerzbk	889,393	70.7	+0.7
Daimler-Benz	674,283	202	−3.75
Deutsche Tel	672,197	45.4	+0.45
Siemens	573,888	110.15	+3.45
Deutsche Bk	494,835	154.95	+2.8
Bayer	491,098	78.75	+3.35
Dresdner Bk	379,821	100	+1.3
Hoechst	307,122	73.55	+0.8
Fag Kugelfisr	293,080	29.45	+0.75
BASF	282,235	80.1	+2.1

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Balke-Durr	329.9	+34.9	+11.8
Holzmann (P)	[illegible]	+58	+11.3
Rheinmetall	55.5	+4.5	+8.8
Glunz	86	+6	+7.5
Berz	46	+3	+7.1
Karstadt	850	+56	+7.1
Downs			
Feldmann Pf	86	−3.86	−8.7
Babcock-BSH	92	−3.85	−4.1

UK

	May 11	May 8	May 7	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	6028.3	5969.8	5939.0	6105.80	5068.80	6105.8	986.9

Day's high 6030.9 Day's low 5957.4

LONDON TRADING ACTIVITY

Volume : [illegible]

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Signet	52,014,180	46½	+¼
Shell	15,134,160	459¾	+3½
Norwich Un	10,095,620	433½	+4½
Eurotherm	9,679,008	480	
Dana Pet	8,928,301	21½	+¼
ASDA	8,842,047	193½	+4½
Eng China Cl	8,774,723	240½	
Courtaulds	8,670,517	464	[illegible]
Pilkington	8,657,039	138	+2½
Br Petroleum	8,564,335	956	+7

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
On-Line	22½	+5½	+32.4
Fairbriar	50	+11	+28.21
Holmes&Mrch	20¾	+4½	+27.7
Bond Intl	123½	+26	+26.7
Columbus	21¾	+3¾	+20.8
Downs			
Burnden Leis	17	−5	−22.7
EBC	66	−5	−7.1
EMI	535	−38	−6.6

INDEX FUTURES

S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	1115.30	1120.80	+22.50	1123.90	1117.00	119,808	340,254
Sep	1130.00	1133.30	+23.00	1134.60	1129.50	378	12,524

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	15230.0	15380.0	+220.0	15410.0	15230.0	21,563	193,254
Sep	15280.0	15410.0	[illegible]	15410.0	15270.0	54	12,847

Open interest figures for previous day.

CAC-40 (200 × Index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
May	4002.0	3984.0	+103.0	4004.0	3993.0	366	35,714
Jun	3981.5	3979.0	+103.5	3981.5	3975.0	30	18,704

DAX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jun	5325.0	5335.5	+50.0	5353.0	5284.0	16,210	123,317
Sep	5379.0	5392.0	[illegible]	5392.0	5357.5	[illegible]	17,425

FT-SE 100	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
May	760.25	773.00	+18.0	774.00	760.25	8,220	120,587
Jun	763.75	776.00	+9.75	776.00	763.75	489	30,210

FT-SE 250	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
May	7649.0	[illegible]	+79.8	7690.0	7633.0	4,081	20,305
Jun	7635.0	7870.2	+132.8	7665.3	7635.0	1,180	2,339

WORLD MARKETS AT A GLANCE

Country	Index	May 11	May 8	May 7	1998 High	1998 Low	Yield	P/E
Argentina	General	23215.56	23126.13	22969.37	23469.47 23/3	19237.49 3/1	2.8	19.9
Australia	All Ordinaries	2797.6	2780.5	2780.8	2881.40 16/4	2642.40 12/1	3.3	20
	All Mining	872.2	862.1	871.5	713.10 [illegible]	552.20 13/1		
Austria	Credit Aktien	(u)	(u)	581.58	581.58 7/5	437.44 13/1	1.5	15.9
	ATX Index	1590.56	1569.47	1546.86	1590.56 11/5	1240.60 13/1		
Hungary	Bux	8468.48	8578.67	8611.38	9016.39 23/4	7289.79 13/1	na	na
India	BSE Sens.	(s)	4022.20	(s)	4280.96 21/4	3209.55 28/1		
	Coull 500	(s)	781.04	(s)	[illegible] 21/4	684.38 28/1	na	na
Indonesia	Jakarta Comp.	(s)	434.85	438.78	584.10 2/2	343.67 9/1	2.4	14.3
Poland	WIG	17891.5	17880.5	17758.3	18882.70 11/3	13336.80 13/1	1.2	14.2
Portugal	BVL 30	5815.86	5531.89	5617.54	6176.89 22/4	3879.27 2/1	1.5	41.9
	PSI 20	12927.08	12965.11	12930.99	14292.89 22/4	9031.84 2/1		
Russia	RTS		(u)	302.62	304.74	411.81 5/1	288.93 29/1	na	na

Political concerns after the weekend's general election depressed shares.

Steady finish to thin volumes ahead of budget. Resources outperformed and golds jumped 2.3 per cent.

Shares edged edged down, ignoring a cut in interest rates. Foreign investors were leading sellers.

THE NASDAQ STOCK MARKET

4 pm close May 11

[illegible]

THE NASDAQ STOCK MARKET

[illegible]

AMEX PRICES

4 pm close May 11

[illegible]

EASDAQ

EASDAQ is a fully regulated independent pan-European Stock Market focused on high growth companies with international operations. The shares of companies on the EASDAQ Stock Market can be bought and sold through EASDAQ Members.

[illegible]

STOCK MARKETS

Investors seek out next takeover targets

WORLD OVERVIEW

Another wave of mergers ensured that stock markets started the week in buoyant mood, *writes Philip Coggan.*

A link-up between Nissan Motor and Daimler-Benz, which only last week agreed to merge with Chrysler, helped steady the Tokyo market.

Then, in the US, a telecoms merger between SBC Communications and Ameritech, an oil deal between Baker Hughes and Western Atlas, and the packaging merger between Stone container and Irish group Jefferson Smurfit, sent Wall Street sharply higher as investors sought the next wave of takeover candidates.

The Dow Jones Industrial Average was up 100 points within the first few minutes of trading, given a particular lift by DuPont's decision to spin off its Conoco subsidiary.

European markets took their cue from events in Asia and the US. The rise in Tokyo and the fact that many other Asian markets were closed for holidays eliminated a potential negative weight on sentiment; Wall Street's strong close on Friday and opening yesterday provided a positive momentum.

The CAC 40 in Paris managed to pass 4,000 for the first time; it broke the 3,000 barrier only last year. The bourses in Helsinki and Stockholm also recorded all-time closing highs. Many European markets were 1-2 per cent higher.

Fears of interest rate rises in Germany or in the US – where the Federal Reserve open market committee meets next week – appeared to take a back seat yesterday.

The European team at Credit Suisse First Boston continues to take a bullish stance on European stock markets. "In our view, they have the potential to rise by another 10 per cent on average by year-end, and our long-term forecasts indicate some significant potential returns of 50-70 per cent by the end of 2000."

"We would overweight two types of markets," added CSFB. "Those that should benefit from the convergence of interest rates at a low level [Italy, Spain, Portugal and Ireland] and those that should surprise positively with strong momentum in return on invested capital [Germany, Netherlands and Finland]."

Asia remains the greatest worry for most investors. The latest Merrill Lynch/Gallup survey of Asian fund managers found that bears of the Indonesian stock market outweighed bulls by 50 percentage points, while buying interest declined in every regional market except Australia and India. The survey was conducted between April 30 and May 6.

Dow surges after fresh merger wave

AMERICAS

A fresh wave of mergers and corporate deals gave an early lift to US shares, sending the Dow Jones Industrial Average up nearly 100 points by early afternoon, *writes John Labate in New York.*

The Dow's impressive gains came largely from a handful of stocks. DuPont surged 7.8 per cent or $5⅞ to $79⅞ after it said it would divest its energy subsidiary Conoco. General Motors powered ahead by 5.2 per cent to $72¼. Union Carbide gained $1⅜ to $53⅞.

Although off its morning highs, the Dow was up 94.91 or more than one per cent by early afternoon at 9,150.06. The broader Standard & Poor's 500 had gained 5.93 to 1,114.07.

News of SBC Communications' $57bn bid to acquire Ameritech set off a round of buying in the telecoms sector. Ameritech shares climbed 6.8 per cent or $3 to $46¾, while SBC fell $2⅜ or 6.3 per cent to $39⅞.

In other takeover news, Stone Container shot up 15.2 per cent to $20¾ after Jefferson Smurfit said it would merge with the paperboard producer. Jefferson shares gained $¾ to $21¼.

Monsanto announced the acquisition of two biotech companies to mixed results. DeKalb Genetics rose 23 per cent or $17⅞ to $94⅞ when Monsanto said it would buy its remaining public shares. But the company's takeover of Delta & Pine Land sent Delta's shares down 10 per cent to $47¾.

In the oil service sector Baker Hughes' attempt to merge with Western Atlas sent Western's shares climbing almost 15 per cent to $93¾. Baker's stock lost $1¾ to $39¾.

Sunbeam, the consumer products producer, fell $1¾ to $25⅞ after the company released first-quarter earnings and said it would begin new job cuts.

Technology shares were mixed. The Nasdaq composite improved just 2.07 to 1,866.44. Semiconductor producers, including Intel and Motorola, fell back, but computer makers were mostly higher. Apple Computer rose $1 to $31⅛, while Dell Computer gained $1⅞ to $93⅛.

TORONTO built on Friday's solid gains thanks to early strength on Wall Street, further gains for golds and a speculative bounce for drinks and entertainments giant, Seagram.

The 300 composite index, which rose more than 70 points on Friday, had put on 34.16 at 7,733.40 at noon.

Seagram surged C$1.40 to C$61.50 as speculative interest in the shares was heightened by a press report linking the group with PolyGram, the Dutch music offshoot of Philips.

Northern Telecom gained C$1.45 to C$90.25 and Bombardier, which hopes to win a big Canadian high-speed rail contract, was up 35 cents to C$39.55.

Golds tracked the improving bullion price. Barrick added 60 cents to C$32.05 and Placer Dome 55 cents to C$20.85. Among banks, Bank of Montreal rose 40 cents too C$78.85 and Canadian Imperial 45 cents to C$51.45.

Among second-liners, Inutec Pharma surged 32 cents to C$1.31 in 1.5m shares traded on hopes for a cancer drug.

São Paulo blue chips slip

SAO PAULO lost ground in early trading, reversing part of Friday's solid rally. Telebrás moved higher as hopes rose for strong foreign support for the privatisation of the telecoms leader, but the broad market suffered weak sentiment.

Telebrás added 0.32 per cent to R$135.80. The government is due to sell its stake in the group by mid-July and a decision on whether to allow full foreign participation in the flotation is scheduled for Friday.

In contrast, most other blue chips slipped lower. At midsession, the Bovespa index was off 76 at 11,144.

MEXICO CITY pared early gains to end 28.18 lower at 4,909.47 on the IPC index at midsession. Volume was said to be light. "The early bounce as a result of the good trade figures news quickly ran out of steam. We're back to marking time," said one broker.

CARACAS ignored the better news from international oil markets where the price of Brent Blend clawed back above $15. At midsession, the IBC index was 21.05 lower at 6,219.42.

Paris returns with record high

EUROPE

French investors, catching up with events after their long weekend, pushed PARIS to a record high. Helped by strong gains for France Telecom, Alcatel Alsthom and motor stocks, the CAC 40 index broke firmly above 4,000 to close 110.8 better at 4,017.24.

News of its involvement in a potential C$11bn Canadian high-speed rail venture sent Alcatel Alsthom spinning higher. The shares, a strong market lately following a raised target price at Salomon Smith Barney, closed FFr78 better at FFr1,257 in turnover of FFr2bn.

The disclosure by Chrysler boss Bob Eaton that Chrysler's proposals to link with Daimler-Benz of Germany were only the tip of the iceberg on motor industry merger plans kept the French motor stocks in the fast lane. According to Mr Eaton, six other motor industry deals were being secretly negotiated.

Renault rose FFr14.90 to FFr314.60 and Peugeot FFr63 to FFr1,195 for a four-day advance of more than 11 per cent as speculation about a potential merger of the two groups persisted. France Telecom added FFr16.60 at FFr328.50.

FRANKFURT continued to push higher, with the Xetra Dax up 1.48 per cent at 5,348.75 at the close of electronic trading.

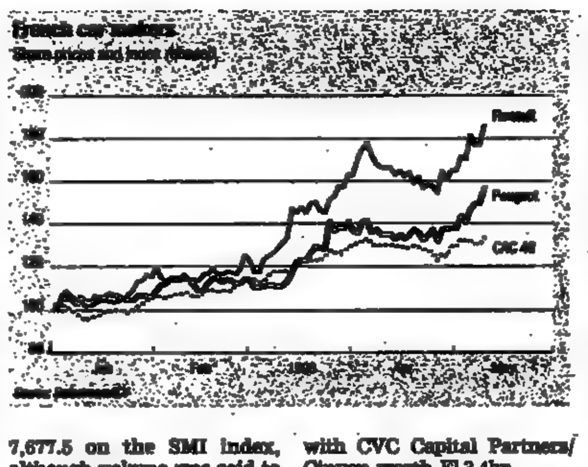
Daimler-Benz added DM2.30 at DM199.50 after positive weekend press comment on the group's planned links with Chrysler and yesterday's news of talks of a truck alliance with Nissan Motor of Japan.

Henkel gained DM6.20 to DM149.20 ahead of a first-quarter results statement and RWE, which puts out a third-quarter result on Thursday, improved DM2.20 to DM90.30.

Volkswagen fell back DM3.40 to DM1,472 following a downgrade by WestLB. The bank, which sees VW's bid for Rolls-Royce Motor Cars as slightly negative, moved from "outperformer" to "moderate outperformer".

Hugo Boss jumped DM70 to DM3,300 after Goldman Sachs lifted its target price on the shares to DM4,000.

ZURICH gained 90.4 to 7,677.5 on the SMI index, although volume was said to be modest.



The big banks made up ground, helped by local press reports suggesting that Germany's Deutsche Bank was keen to buy a number of bank branches from merger partners UBS and SBC. These added SFr38 to SFr2,624 and SFr7 to SFr565 respectively.

Sulzer rose SFr3 to SFr369.50 after the engineering group turned out solid first-quarter earnings. A positive note from Bank Central trade lifted SMH, the watchmaker, SFr65 or 5.7 per cent to SFr1,205.

Engineering newcomer SAIA-Burgess made a sparkling debut, ending at SFr420 against the SFr390 fixed by the shares' bookbuilding.

AMSTERDAM rallied on a spate of merger expectations, closing up 1.6 per cent. The AEX gained 18.37 to 1,182.35, although volumes suffered from computer problems in the morning, which delayed trading for two hours.

PolyGram gained Fl 4.90 to Fl 102.50 on reports that its owner Philips was in talks with Seagram of Canada on a possible sale. Philips, which declined to comment, rose Fl 8.50 or 4.4 per cent.

Akzo Nobel, the chemicals group that is bidding for Courtaulds of the UK, initially lost ground on reports that another party had indicated interest. However, Akzo finally closed up Fl 1.40 to Fl 422.90.

The announced sale of its packaging unit lifted KNP BT, the packaging and office products group. It jumped Fl 4.50 or 8 per cent to Fl 60.50 on its agreement with CVC Capital Partners/Cinven worth Fl 3.4bn.

Good weather briefly lifted Heineken as investors hoped that higher temperatures would mean higher sales. However, late profit-taking depressed the brewer with shares finally closing down Fl 1.30 to Fl 78.50.

Ajax, the soccer club, closed its initial trading day at Fl 30.30, 21 per cent higher than its issue price of Fl 25. It started trading at Fl 32.50.

MILAN rose almost 3 per cent led by a rally in banking shares, and the Mibtel index gained 644 to 24,669 in thin trading.

Banca di Roma rose L149 or 4 per cent to L3,799 on expectations of a merger with BCI which closed up L155 or 1.6 per cent at L10,180. Banca di Napoli was suspended at L3,124 just before the close, after hitting its daily upward limit.

Pininfarina, the car bodywork group, which has a supply contract with Mitsubishi Motors of Japan, rose L3,960, or 9.9 per cent, to L43,960. Investors were encouraged by reports that the new company created by the Chrysler and Daimler-Benz merger would move to acquire Mitsubishi.

COPENHAGEN rallied as Tele Danmark was boosted by the telecoms merger between SBC Communications and Ameritech of the US, and closed up more than 2 per cent. The KFX index rose 4.82 to 240.68 in active trading. Tele Danmark, 42 per cent owned by Ameritech, rose DKr35 to DKr630.

STOCKHOLM closed at a new record thanks to merger speculation. The general index gained 41.44 to 3,656.72. Stora, the paper and packaging group, added SKr5.50 to SKr139 on renewed rumours of a merger with UPM-Kymmene, which rose SKr2.30 to SKr172.

ATHENS moved lower for the fourth day running as the profit-takers continued to dictate direction. The banks were again the heaviest casualties, with the sector falling 5.7 per cent. The general index gave up 92.01 at 2,358.15 for a four-day decline of 10.5 per cent.

Written and edited by Emiko Terazono, Peter Hall, Jeffrey Brown, Paul Grogan

Jo'burg rises on all fronts

SOUTH AFRICA

Shares in Johannesburg moved ahead on a broad front to lift the all-share index 95.0 to 8,170.5.

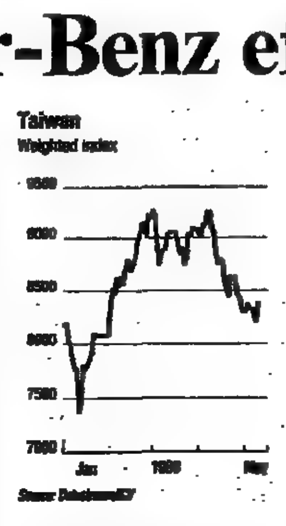
Industrials added 116.2 at 9,872.3 and financials 141.5 at 13,678.1. Golds advanced 3 per cent to 1,050.1.

Among heavyweight stocks, De Beers put on 40 cents to R130 and Anglo American 80 cents to R282.

Daimler-Benz effect lifts Tokyo

ASIA PACIFIC

News that Daimler-Benz was in talks on forming an alliance of truckmakers with Nissan Motor lifted sentiment in TOKYO, and the Nikkei 225 Average rose 232.90 or 1.5 per cent to 15,381.90, *writes Gillian Tett in Tokyo.*



The benchmark index traded between 15,213.34 and 15,433.87. Volume was thin with an estimated 270m shares traded, down sharply from Friday's 430m. Among first-section stocks, gainers outpaced losers 732 to 341.

The announcement that Daimler-Benz was in talks with Nissan Motor and might possibly take a stake in Nissan Diesel Motor boosted hopes that the recent fall in stock market values would encourage a wave of mergers and acquisitions in Japan.

Nissan Motor, which was the most heavily traded share of the day, rose Y39 yen to Y434.

The bid price for Nissan Diesel Motor surged to Y210 from Friday's closing price of Y160, although no deals were struck during the session because there were not enough sellers to match the "buy" requests.

Other carmakers also gained ground. Toyota Motor rose Y80 to Y3,450, Honda Motor Y80 to Y4,730, Mazda Motor Y20 to Y390, and Mitsubishi Motors Y30 to Y376.

Another boost to the market came from the announcement of a restructuring plan from Haseko, the financially weak construction group. Haseko jumped Y15 to Y92 on the news, which involves relatively large job losses. However, the other major construction contractors were steady: Obayashi was unchanged at Y579, Taisei rose Y4 to Y283 and Kajima fell Y1 to Y375.

The second-section index added 6.03 at 1,304.72 on estimated trading volume of 7m shares, up from Friday's 4m. The Topix index of all first-section stocks climbed 1.23 per cent or 14.61 to 1,202.79. The Osaka index closed at 16,187.34, up 167.83.

TAIWAN moved strongly higher following what brokers described as a technical rebound for the heavyweight electronics sector, which gained 3.3 per cent. The weighted index rose 168.04 or 2.1 per cent to 8,376.88.

Hon Hai Precision jumped T$8 to T$208 and Compeq rose T$185 to T$279. Diversification news from Formosa Plastics sent the shares up by the daily 7 per cent. They closed T$3.50 higher at T$57.50.

HONG KONG ended a volatile, low-volume session with the Hang Seng index up 35.99 at 10,096.37. Friday's strong close on Wall Street plus a solid performance by Japan set a solid tone, but little business was transacted.

Turnover was HK$3.6bn, down from HK$5.8bn on Friday. HK Telecom rose 65 cents to HK$14.90. HSBC gave up 1.00 at HK$217.

SEOUL slid lower as worries about civil unrest and last week's bank rating downgrade by Moody's cut a swathe through sentiment. The composite index fell 13.18 or 3.5 per cent as financial shares moved lower across a broad front.

Dong Ah Construction, which last week announced that creditors would provide the troubled company with Won30bn, fell Won345 or 12 per cent to Won2,535.

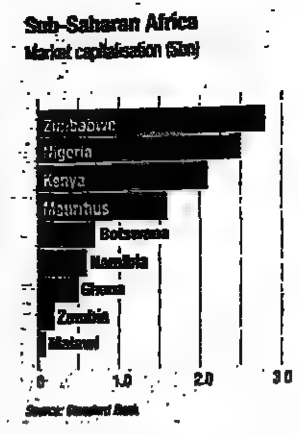
SYDNEY moved higher helped by improving resource stocks. The golds sector rose 2.3 per cent. Rio Tinto added 29 cents to A$21.53 and BHP 18.5 cents to A$14.36. Among golds, Normandy rose 2 cents to A$1.59.

Banks also made upward progress. ANZ gained 19 cents to A$11.41 and Westpac rose 10.9 cents to A$10.72 for a two-day gain of 2.5 per cent following Friday's announcement of a share buyback. The All Ordinaries index improved 17.1 to 2,797.8.

EMERGING MARKET FOCUS

Sub-Sahara raises its profile

Last month's 12-day African tour by President Bill Clinton, plus a visit by James Harmon, US Export-Import Bank chairman, have put the continent in the spotlight.



Africa's problems are well documented: President Mugabe's land policies in Zimbabwe that have created economic havoc, corruption in Kenya, and the effects of El Niño. And along with the bad publicity, the small size and low liquidity of the markets have kept the larger investors away.

"They are way behind, even in the emerging markets world," says Matthew Merritt, strategist at ING Barings.

But the recent visits have raised the profile of sub-Saharan Africa, points out Christopher Hartland-Peel, analyst at Standard Bank in London. Chosen carefully, good African businesses are available at steep discounts, say Blakeney Management, asset managers specialising in Africa and the Middle East.

While not for large funds or the faint-hearted, investors interested in the region will be encouraged by the performance of markets in the sub-Saharan region.

Botswana, which rose 98 per cent last year, was among the top performing markets in the world; as was Zambia, which gained 86 per cent.

This year's winner to date is Ghana, which, excluding heavyweight Ashanti Goldfields, has racked up gains of 115 per cent. In the three years to 1997, the Accra stock market moved sideways, partly because of a dire lack of liquidity.

However, a foreign buyer seems to have kick-started the rally, raising bids to levels where sellers would come out. This happened as economic fundamentals were improving.

Inflation, which was more than 70 per cent two years ago, has declined to about 18 per cent, with the government setting an inflation target below 10 per cent for the current year.

The approval of the $110m loan from the International Monetary Fund has also made Ghana an attractive, if illiquid, proposition for overseas investors.

Botswana has managed to sustain its rally, posting a 35 per cent rise since the start of the year. John Clemmow at Investec Securities remains bullish on the market. Commercial banks are on attractive ratings and Sechaba Brewery recently reported strong results.

Kenya, is expected to be supported by higher tea and coffee prices, and may be one of the more interesting plays, says Miles Moorland at Blakeney. "It's one of the most attractive, valuation wise, and everybody knows about all the bad news," he says.

Zimbabwe, which gained 39 per cent in the first quarter thanks to a stronger currency before falling back, may only be for the very bravest investors.

The failure of United Merchant Bank has triggered concern over the financial system and confidence has plunged. "Things are looking pretty ugly there," says Mr Clemmow.

Emiko Terazono

Egypt

Progress has been made on the economy, but unless reforms can bring about good governance and efficiency, badly-needed growth will not materialise, says **David Gardner**

In this survey

Editorial Production: Sarah Murray

Gridlock of bureaucratic resistance

Like Cairo's choked roads, Egypt's transition towards a market economy is becoming more difficult to navigate. The rash of top-of-the-range Mercedes, BMWs and Jaguars which have appeared in the capital in the past few years – with their alarming tendency to accelerate past the wrecks which until now have passed for cars – makes the familiar process of threading through the traffic altogether more hazardous.

So it is with reform. Both in government and in business, a handful of "new models" – gifted technocrats, say, or managers with international experience – are trying to move, but at a speed which brings them continually into collision with the sluggish, antiquated and bloated bureaucracy, or with under-skilled workforces and management structures which are geared more to passivity than performance.

"At least once a month," says one Egyptian businessman who is trying to plan a significant expansion of his companies, "I have to drop everything and sort out some mess-up at a bank, a ministry, or some section of the bureaucracy, where people rise because they've never made a decision, and therefore have never made a mistake."

But Egypt has unquestionably come a long way, doggedly building itself a platform from which to launch stable, self-sustaining, and export-led growth. Whether it can actually achieve this depends on how it follows through on its grand design, how good it is at "governance in the small, more than governance in the large," as Khalid Ikram, director of the World Bank's Egypt department, puts it.

This in turn depends to a great extent on whether Egypt's ancient tradition of a highly centralised and authoritarian state can now ease itself into a looser but more stable framework of institutions that are transparent, accountable, and staffed by qualified people capable of taking and implementing decisions.

For Egypt has reached that stage in its reform in which a great deal of ingenious effort by a few disappears into the black hole of the 4m-strong bureaucracy, in which oases of excellence risk being overwhelmed by a desert of indifference and mistrust.

At the macro level, Egypt's performance has been impressive. It spent a decade in the 1980s building up its infrastructure and the first half of the '90s successfully stabilising its macroeconomy, the fundamentals of which, under International Monetary Fund guidance, have held solid.

Inflation is now 3.7 per cent, half 1996 levels. The budget deficit is under 1 per cent, down from more than 20 per cent seven years ago. Foreign exchange reserves stand at more than $20bn.

This is more than enough to service a foreign debt halved to $28.5bn from the beginning of the decade (only $1.6bn of which is short-term), and to run small current account deficits while maintaining the stability of the Egyptian pound.

From 1996, when President Hosni Mubarak appointed Kamal el-Ganzouri as prime minister with instructions to start privatising 314 state enterprises and create a new regulatory and legislative environment friendly to foreign and domestic investors, Egypt has moved forward from almost paralysing hesitation about structural reform.

The government has sold, in whole or in part, 84 companies, against only four in 1991-95, and, Mr Ganzouri says, "we have changed or amended nearly 90 laws." The prime minister, a lifelong central planner chosen by the president to push through reform because of his deep knowledge of how the Egyptian system works, says: "We have started to talk a new language: what it is, is that if you make a profit, you will invest and expand your business, and you will employ more of our people – we have to create 500,000 new jobs every year."

Hit last autumn by the twin shocks of the financial crisis in East Asia and the massacre by Islamist radicals of 58 tourists in a Luxor temple, the government held its nerve. It decided to accelerate structural reform and strengthen the macroeconomy, commiting itself to either liquidate or sell majority stakes in 10 state enterprises per quarter, to lift the state monopoly on the ports, open telecoms to the private sector, and start the legal changes needed to privatise the banks and the insurance companies, lifting all restraints on foreign ownership.

The hope is that this renewed commitment to reform will have the same effect on investors as the watershed decision two years ago to privatise Nasr City Housing – the first majority sale of a state-owned company. This led to vigorous stock market growth and an inflow of about $1.3bn in each of the past two years of foreign portfolio investment. It has also led to Egypt being classified as investment grade by international ratings agencies – although the level of foreign direct investment is still disappointing.

Egypt embarked on structural reform in the first place because the government finally realised that it would not get the figure of about 8 per cent annual growth in gross domestic product it must have to meet the needs of its fast-growing population without adding 10 percentage points of GDP to savings and investment ratios. These are about half the levels in successful developing economies. Overall investment is creeping up slowly, to reach about 19 per cent of GDP, but this is still far short of the 25 to 28 per cent of GDP the government is aiming for.

Critics, however, in and outside the government, fear the government measures its policies by quantity rather than quality, and that too many of its decisions remain on paper only. Many of the privatisations so far, for example, have involved the sale of minority shares, leaving the companies concerned massively overmanned and under the control of the old, inefficient management. Mr Ganzouri agrees, but counters that gradualism is safer, and that the intention is to get rid of a lot of these managers this year and next. "We have a road-map," he says. "Believe me."

Imprinted on the regime's political psyche is the memory of bread riots provoked by IMF-inspired austerity measures two decades ago, a rare social explosion the government will not risk repeating through mass redundancies. But the problem of overmanning in the public sector and privatised companies – financially tolerable at Egypt's low wage levels in lieu of a proper social security system and until private investment starts creating real jobs – is less about cost and more about efficiency.

Ibrahim Fawzi, chairman of the General Authority for Investment (GAFI) to which would-be investors head for rapid and untrammelled authorisation, says, for example, that "if I were to start up this office I would need about 50 or 60 people to run it efficiently. But I have 1,400."

Similarly, government technocrats carefully crafted an amendment to the companies law, making registration of a new enterprise automatic unless the companies authority objected within 10 days on specified grounds, in effect reversing the burden of proving that the investor is bona fide. But the changes were not implemented, not only because of bureaucratic resistance, says one official, but because of the regime's obsession with security. "With anything you try to reform there is a hidden security element in it," he says. "The security obsession is not really about catching anybody but about maintaining the power of the security people."

Indeed, the Egyptian system arguably is founded on the single institution of the army, which, along with its intelligence arm, guarantees the security and stability of the state – but makes for a poor instrument of reform. This lack of institutions at the same time places enormous burdens on small groups of qualified people across the system.

Continued on page 18

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ECONOMY • by Scott Morrison

Fit enough to avoid nasty case of 'Asian flu'

Fundamentals are good but weakness of currency remains a worry

The Canadian economy has undergone a dramatic transformation since the early 1990s. Hobbled by painful corporate restructuring and tight monetary conditions intended to tame inflation, the economy lurched out of the 1990-92 recession primarily on the strength of exports to the US. The outlook has improved significantly in the past two years, with a resurgence of domestic demand, strong business investment and low interest rates. Canada's economy expanded 3.8 per cent in 1997 and is poised to enter a period of sustainable non-inflationary growth and falling unemployment amid a background of improving fiscal fundamentals.

While economists have slightly reduced estimates in the wake of the Asian crisis, the IMF still expects Canada to lead G7 nations with 3.2 per cent growth this year and 2.8 per cent in 1999.

The current strength of the economy has softened the impact of Asia's economic crisis, which has led to lower prices for natural resource exports. Business investment over the past four years has surged, particularly for machinery and equipment, and among energy groups developing additional heavy oil production capacity in Alberta.

Foreign trade continues to account for roughly 40 per cent of GDP and the outlook remains positive given the strong performance of the US economy, Canada's primary export market. Statistics Canada reported that exports rose more than 7 per cent to C$302bn last year, although growing imports led to a deterioration of Canada's merchandise trade balance to C$23bn. A key concern remains the country's current account, which after showing a small surplus in 1996 registered a C$17bn deficit last year.

Unemployment, too, remains a vexing problem for the Liberal government, despite the creation of about 370,000 net new jobs last year. The jobless rate has fallen from 10 per cent in November 1996 to 8.5 per cent in March this year and economists forecast that it should fall to 7.5 per cent next year. Stubbornly high unemployment has, however, contributed to relatively low labour costs, one of several reasons Canada has again become a preferred location in which to conduct business.

A recent study by KPMG concluded that low labour costs offset relatively high corporate taxes to make Canada one of the cheapest locations among industrialised nations in which to establish and operate a manufacturing concern. Having slipped to 16th in the World Economic Forum's competitiveness rankings, Canada has since rebounded to fourth in its 1997 report. Foreign direct investment grew to C$188bn in 1997.

Much of the confidence shown in the economy is a result of several years of aggressive deficit cutting measures by the public sector. Ottawa this year announced its first balanced budget in almost 30 years, while Saskatchewan, Ontario, Quebec and several other provinces have either brought deficit spending under control or are well on the way to doing so.

The Bank of Canada has helped restore confidence by keeping inflation at the low end of its 1-3 per cent target band. Gordon Thiessen, the central bank's governor, last month said that while inflation will nudge towards 2 per cent this year, the combination of the improved public sector fiscal situation, low inflation and the private sector's efforts to increase productivity has dramatically improved the country's economic outlook: "I believe that those fundamentals are better in Canada now than they've been at any time since the 1960s," he said.

Virtually all regions of Canada will share in the country's good economic fortunes. Growth in Ontario will be fuelled by the province's manufacturing sector and its construction boom. Large capital investments in heavy oil and petrochemicals, as well as pipeline expansion, residential construction and retail spending will contribute significantly to Alberta's strong economy.

Quebec's economy continues to be fuelled by its high-tech industries, such as aerospace, pharmaceuticals, biotechnology and electrical and electronic goods, much of which is destined for the strong US market.

Manitoba and Saskatchewan will see increased consumer spending and continued investment in pipeline expansions, food processing and buoyant manufacturing industries. Energy developments, industrial growth and tourism will contribute to growth in the four Atlantic provinces.

Difficulties in British Columbia's key forestry sector were exacerbated by economic troubles across the Pacific, but the effects of the Asian crisis will be partially offset by gains in the province's expanding film industry and its small but growing high-tech sector.

Despite the outlook, there are concerns Canada is vulnerable to external shocks, such as a deepening or widening crisis in Asia, even weaker commodities prices, as well as a stock market correction or an interest rate increase in the US.

At the same time, the weakness of the Canadian dollar is a problem. The Bank of Canada raised its key bank rate to 5 per cent early this year after the currency set a record low of US68.2 cents.

The dollar has recovered somewhat but a number of factors continue to put pressure on the currency, including the unwarranted perception that Canada remains primarily a resource exporting economy. Short-term interest rates that remain below those in the US and the political uncertainty in Quebec are also factors.

While a weaker dollar makes exports more competitive, economists are concerned that the Bank of Canada might raise its rate in a bid to buoy the currency or in response to a move by the US Federal Reserve Bank.

That would hit hard at consumers who are highly indebted, and some fear that higher Canadian rates would squeeze domestic demand and business investment just as the economy is hitting full stride.

But Paul Martin, the finance minister, says that Canada's economy has proven quite resilient to the Asian crisis, with medium- and long-term rates dropping since the Asian crisis unfolded. "It is the strongest confirmation of the dramatic financial turnround of the Canadian economy," he says.

QUEBEC • by Edward Alden

Charest: federalists' big hope

Closeness of last sovereignty vote sparked a new sense of maturity and realism

In November of 1995, Canada came within 50,000 votes of beginning negotiations on its own dissolution. The near miss in the referendum on Quebec's sovereignty shocked the federal government, the rest of the country, and even supporters of a separate Quebec.

By a margin of just 0.08 per cent, Quebeckers had voted to remain in Canada, a result so close it shook the country out of complacency.

That may not be a bad thing. Since the near miss two and a half years ago, both sides in the 30-year-old conflict appear to have acquired a new maturity and realism. Ottawa has pursued a two-pronged strategy of trying to reassure Quebec that the French language and culture will not be threatened in a united Canada, while simultaneously ensuring the federal government will not be caught flat-footed if there is a successful referendum in the future.

In Quebec City, the separatist Parti Québécois government is on the verge of tabling its first balanced budget, and is presiding over an economy that looks healthier than it has in decades.

Ottawa has asked the Supreme Court to clarify the legality of separation under Canada's constitution, how large a majority would be required for a successful referendum, and which issues must be negotiated in the event of a vote to secede.

While the move has angered many Quebeckers, it is extremely popular in the rest of the country, pleasing hardliners who talk about partitioning Quebec between French and English-speakers in the event of a 'yes' vote. The courts decision is expected later this year.

But Ottawa hopes those questions will be merely academic, and its fortunes now rests with Jean Charest. Mr Charest, who is widely credited with saving the federalist cause with a series of impassioned speeches in the dying days of the 1995 sovereignty fight, has left the leadership of the moribund federal Conservative party to take over Quebec's provincial Liberal party. His predecessor, Daniel Johnson, was eased out in part because Quebec business leaders became convinced he could not defeat the sovereignist leader of the Parti Québécois, Premier Lucien Bouchard, in the next election.

Mr Charest, in contrast, is leading Mr Bouchard in public opinion polls.

The election promises to be one of the most dramatic in the province this century, pitting two former federal Tory cabinet ministers in a battle for the soul of Quebeckers.

Mr Bouchard already appears a bit off-balance; he cancelled plans for an election call this year and is hinting he may not hold another referendum even if the PQ wins the next election.

He is a skilled leader, and has tagged his opponent as the New Coke candidate – all marketing and no substance.

Mr Bouchard came to power, following the last referendum, determined to bring the government's ballooning budget deficit under control.

In November 1996 he convened a summit of top business and labour leaders, who agreed to support a plan for eliminating Quebec's C$5.8bn budget deficit by 2000. He has been able to cut government spending without alienating trade union supporters, in part by offering generous early retirement packages for civil servants.

Business confidence in Quebec is gradually being restored. For the first time in decades, Statistics Canada is forecasting that non-residential investment growth in Quebec will outstrip the Canadian average – 8.9 per cent compared with 6.7 per cent. Alcan Aluminium recently announced its intention to spend C$2.2bn building a new smelter in the Saguenay region.

While the threat of another referendum remains discouraging, the deficit reduction programme has been looked on favourably by business, says Yvan Allaire, executive vice-president of strategy and corporate affairs for Bombardier, the Montreal-based aerospace and transportation group.

A January survey by the Conseil du Patronat, which represents Quebec's largest employers, found that 71 per cent thought economic conditions were good or very good, up from just 36 per cent a year previous.

The Canadian Bond Rating Service last month revised its outlook for Quebec bonds from negative to stable. "It is not an upgrade yet, but it is a reflection of the fact things have stabilised," says senior vice-president Ihor Kots.

Montreal, which lost its status as the country's financial capital when political uncertainty drove many English-speaking businesses to Toronto, is staging a comeback. With encouragement from Quebec's generous tax credits for research and development, sectors such as transportation, aerospace, pharmaceuticals, biotechnology and software engineering are flourishing.

Quebec, however, will still trail the rest of Canada with 2.9 per cent growth this year and 10.6 per cent unemployment, according to the latest forecast from the Royal Bank of Canada.

Mr Bouchard's motives, it is recognised, are not inconsistent with the Parti Québécois' eventual goal of sovereignty. "Deficit zero was a way of saying if we go and become sovereign we will not be strangled by the financial markets," says Francois Vaillancourt, an economist at the Université de Montreal. In Quebec there is no strong fetish for a zero deficit.

In the budget speech last month, finance minister Bernard Landry said the elimination of the deficit is an inescapable milestone in the realisation of Quebec's other economic and social priorities.

A revitalised economy might convince Quebeckers they should stick with Canada. Or it might persuade them they are strong enough to go it alone. But if it did nothing else, the 1995 referendum should finally have convinced Canadians outside Quebec that the sovereignty issue will not go away.

About 40 per cent of Quebec's population, and 60 per cent of its francophone population, strongly supports a separate Quebec. And while a majority of Quebeckers say they do not want another referendum at this time, they also say they want constitutional changes to address Quebec's concerns within confederation, something Ottawa probably cannot deliver.

Under the right circumstances, Mr Bouchard might win support from enough of the so-called soft nationalists to win a referendum and declare a sovereign Quebec. Equally, Mr Charest may be able to convince them that Quebec remains better off in a united Canada.

Either way, the enduring question of Quebec's place in confederation is unlikely to go away.

So near a breakaway: 'Yes' supporter burns 'No' sign and Canadian flag in October, 1995 Reuters

ENVIRONMENTAL PRODUCTS • by Scott Morrison

Water expertise is crystal clear

The sector's strength lies in purifying and recycling treatments

Ballard Power Systems has recently emerged as one of Canada's most promising pioneers of environmentally sound technology. It has for the past decade worked to develop a commercially viable proton exchange membrane fuel cell, an electricity generating device that uses hydrogen to power vehicles while emitting simple water vapour as exhaust.

The company has reduced the size and cost of its fuel cell dramatically in that time, leading Firoz Rasul, Ballard's chief executive, to predict his company's product will power mass produced vehicles within a decade.

Encouraged by Ballard's efforts, Ford and Daimler-Benz have in the past year invested about C$1bn in the company.

Ballard is one of more than 4,000 companies that comprise Canada's environmental industry, which generates annual revenues of between C$17bn and C$27bn, depending on whether products such as green building materials are included.

A knowledge-based industry that primarily comprises small and medium enterprises (SMEs) with high export growth potential, Canada's environmental sector embodies the characteristics which the government has identified as being important to the country's economic future. Industry Canada, the federal ministry, expects the sector to grow by about 4 per cent annually in the short term.

The sector features technologies that are primarily regulatory driven because they deal with contamination reduction, but a growing number of innovations and processes are reducing pollution and increasing industrial efficiency.

The bulk of Canada's environmental technology groups work to improve drinking water standards or recycle waste water. Trojan Technologies has captured at least 70 per cent of the international market with its ultraviolet water purification products. Zenon Technologies has become a world leader with its membrane products to purify and recycle water.

Other water treatment processes being developed in Canada include wet air oxidation, which breaks down complex organic compounds, and biological nutrient removal, which strips phosphorous and nitrogen from contaminated sources.

Research and development groups are also active in solid waste treatment, while a smaller percentage of companies are dedicated to reducing air pollution.

Service and consulting groups make up between 50-65 per cent of Canada's environmental industry.

Some 50 per cent of the nation's environmental technology industry is based in Ontario, which in recent years has been one of the more contaminated areas in North America. The province's close trading links to the US, an important market for Canadian environmental technology, has led industry analysts to forecast the provincial sector will grow at a rate three times faster than Ontario's overall economy.

Growth across Canada's environmental industry is forecast to grow strongly as a result of a number of developments. Recent international agreements and more stringent national standards have prompted the private sector to begin investing in programmes to upgrade water treatment capabilities and prevent air contamination, offsetting a decline in public sector initiatives.

A significant opportunity stems from last year's Kyoto Climate Change Convention. Canada pledged that between 2008 and 2012, it would have reduced greenhouse gas emissions by 6 per cent from 1990 levels, an ambitious target given that emissions have increased since the beginning of the decade.

The ability of environmental firms to grow will depend largely on their ability to tap a larger share of the US$450bn international market, of which Canadian companies have captured an estimated 3 per cent. In line with Canada's overall trading pattern, some 80 per cent of environmental exports are destined for the US. Developing nations moving to adopt green technologies, however, represent 80 per cent of the international market, which is seen as likely to expand to US$600bn by 2000.

Canadian firms seeking to enter markets in Latin America and Asia will be challenged by larger rivals in the US, Europe and Japan. And financing remains a significant hurdle for the thousands of SMEs that comprise the Canadian industry. Trade development agencies such as the Export Development Corporation and the Canadian Commercial Corporation provide financial and contractual support, but the department of foreign affairs and international trade recognises that the smaller firms still have difficulty developing the delivery and financing packages that would allow them to be more competitive with larger foreign rivals when bidding on large BOT (building-operate-transfer) projects abroad.

The department's environmental industries strategy includes several initiatives designed to help small- and medium-sized environmental companies learn of international opportunities. The government has begun developing market intelligence reports for the industry and has trained consular staff to identify trade opportunities. It also says it will support the establishment of alliances among SMEs with complementary strengths, or between the public and private sector in order to enable the companies to become more competitive when pursuing international opportunities.

But Ronald Portelli, the president of the Canadian Environment Industry Association, says federal officials have sent mixed signals about their commitment to promoting the sector. While the government in 1994 pledged C$15m for programmes to develop infrastructure for the industry, Ottawa's failure this year to renew spending raised concerns among those involved in the sector.

Industry leaders say they would like to see more environmental technologies companies benefit from the Technology Partnership Canada programme, a federal initiative which provides grants to high-tech firms that are repayable out of sales royalties, if any. But while additional government funding and environmental regulations would undoubtedly provide impetus to environmental companies, their prospects ultimately depend on their own abilities to generate innovations.

Since his appointment in January, 1996, Kamal el-Ganzouri, Egypt's prime minister, has overseen the country's most sweeping economic reforms since rapid nationalisation curtailed most private sector activity in 1961. Combining his post with that of planning minister, Mr el-Ganzouri has married his experience of the traditional political system with the pressing need to accept new ideas. **Mark Huband** and **David Gardner** talk to him about his plans for a new climate for the private sector

Climbing out of the old valley

Does the privatisation programme now being undertaken amount to real privatisation in view of the large number of companies in which shares have been issued but which remain largely in the hands of the state?
Since 1996 we have offered 84 companies. I have to admit that if I was free with regard to employment I could do it within one year. Or six months. But our plan is to accelerate. This is why we decided to do something in parallel, which would help to open the door to other investment.

We have concessions now for [private sector] roads, airports, electricity, telecommunications and a seaport. I have to allow the private sector to absorb at least 75-80 per cent of that.

What then is the purpose of privatising at all if you are not going to sell the companies off in their entirety? Is it just to raise money for yourselves so you can pay the redundancy?
No. The function is to help to create a new climate for the private sector. I will keep myself and the government involved in specific areas like education, health and all social requirements.

But, when you are talking about production, we will keep it for the private sector.

But by having a lot of relatively small share issues in the public sector companies — 20 or 30 per cent — are you generating any real change when after the share issues you still have the same people, the same management and the same inefficiency?
I agree with you. But the situation here is a little different from what you are comparing it to. Let us accept the idea of gradualism. It's more safe. It should be very fast. But gradualism means that I will sell a minority.

Meanwhile, there are the same managers who are not efficient. We know it and we see it. And over this year or next year we will get rid of a lot of them.

But you want to retain some degree of control?
In specific areas, like pharmaceuticals. And this is what I have in my mind now. But in all the other areas there is no limitation. We also have to consider the capacity of the capital market. I have to be concerned about the size of the issues being placed because we still have a very emerging market.

You don't feel that this might go so slowly that professional investors who have become interested in Egypt might just say that it is too slow, that we are not getting to the heart of the matter, which is the banks and the insurance companies?
Believe me, if we review what we have already announced — for example to build a build-operate-transfer power station, no fewer than 20 companies made bids — I do believe that the foreigners are giving support. Private sector investment now accounts for 65 per cent of the total. Two years from now the private sector share of investment and GDP will be not less than 80 per cent.

Many people will regard the privatisation of the four banks as a real turning point. When will that turning point be?
We plan for one public bank and one insurance company. The sale will take some time, but we can move once we have approval by the parliament [in June].

I am not saying it will be a sale, but we will ask the private sector to share in this bank and this insurance company.

So, will you be selling a majority in the bank, and will you be looking for an anchor investor to come in? And will you be looking possibly for a foreign anchor investor?
We will offer according to the situation. But definitely, when we turn over the majority, we will ask for anchor investors.

But are you going to offer more than 50 per cent or less?
It could be, and I think it will be, more than 50 per cent.

But if you ask me whether it will be foreigners or Egyptians, I think we will leave it until the situation arises to decide because the bank system should be a little bit under our control.

You can see what happened in south-east Asia for this very reason of the private system.

Will you be actively looking for a foreign anchor investor for the bank that you decide to privatise?
You have many offshore banks here. They have spent almost 25 years here. And they still work in very limited activities. Even so, we have to have a strong bank with the mentality of foreigners, not the mentality of Egyptian banks.

With new technology, and new systems we can have some competition between this one [privatised bank] and the other three.

Your strategy is to create parallels. Parallel opportunities for the private sector. Parallel institutions as a way of keeping in place what you already have, and then slowly allowing what you already have to die a natural death. Isn't maintaining this going to become too expensive?
I have got rid of one quarter of the public enterprises. I need to get rid of the other three-quarters within two years. When we reach the point where the private sector is so much bigger than the public sector, people will simply ask why we are keeping hold of what we have in the public sector. This is the real strategy.

But it's not two systems. It's one system. It's not China.

Institutional reform is not being addressed as urgently as just about everybody would like to see. Are you going to address this?
We have started to. We have stopped employing new people in the government. Minimal efficiency will take between four and five years to achieve if I can succeed in what I am doing now, to get out of the old valley.

We are still living now in 3 per cent of the country, and we have started work in 25 per cent. I am not saying that we will reach 25 per cent over five years, but we have to start.

It will take 20 or 30 years. But I think that this minimum efficiency can be achieved within four and five years.

You obviously see it as crucial to get out of the old valley. What do you say to your critics who say that this priority is a distraction from the crucial questions of reform?
If you go back 20 years, when there were four million people living in Cairo, it was wonderful. We have spent E£9bn on the sewage system and on the metro, but still the system is inadequate.

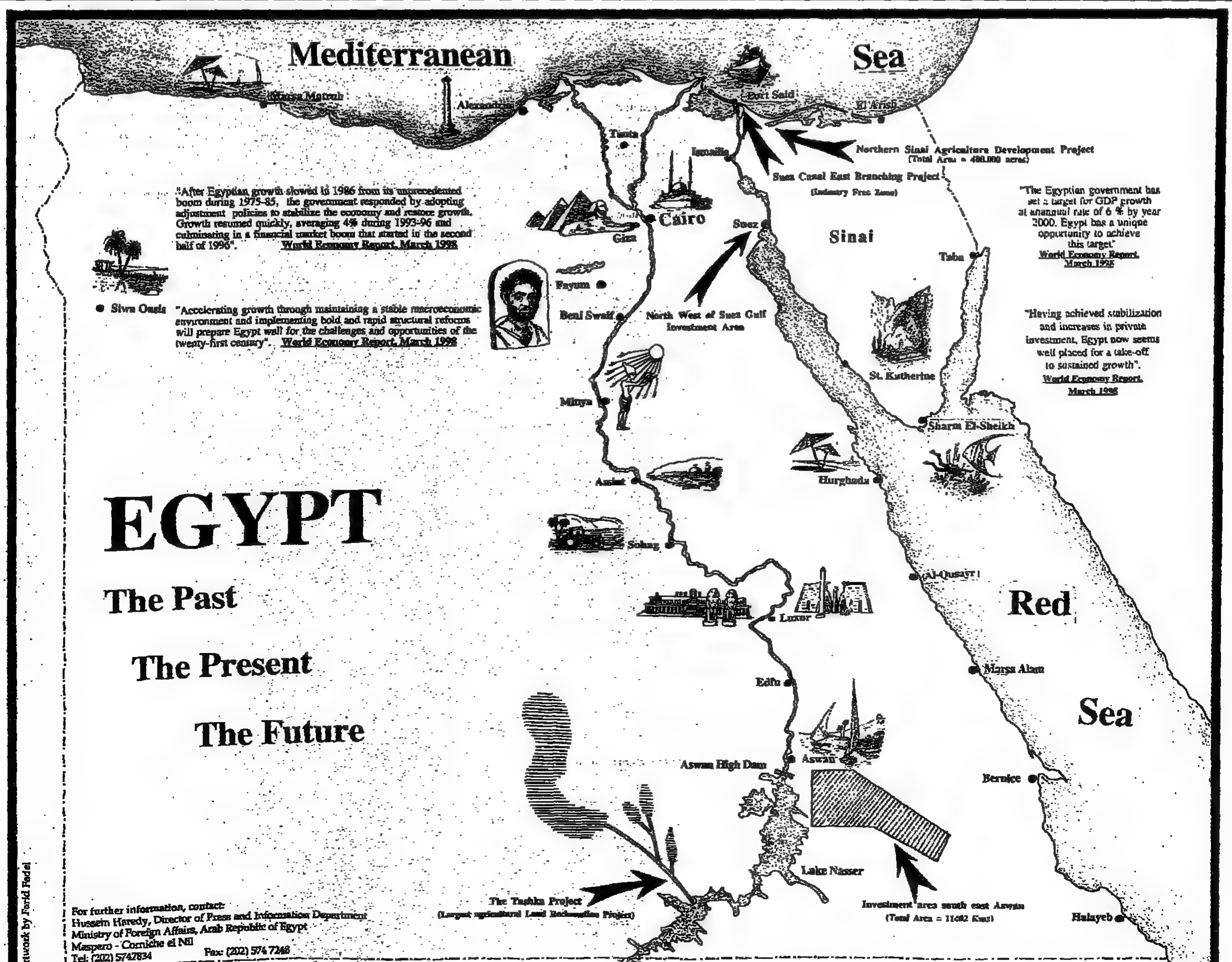
If we keep ourselves in this old valley for another 15 years everything in this country would collapse.

For several years we have been hearing that the security battle with the Islamist militants has been completely won. Also, that there is absolutely no distinction between the Muslim Brotherhood and the Gama'a al-Islamiyya. But there is a big distinction. Surely you now recognise there is a difference?
What the Gama'a Islamiyya are doing as a group, the Muslim Brotherhood is behind them. Go back to 1927 when they started. They started by violence: You can accept my orders or I will kill you.

In response to what Nasser did in 1954 and 1964 they shut them down for many years, then they started to change their attitude. And they financed the [other militant] groups.

If they want to be involved in politics, why can't they join another party? If they achieved power, believe me it would be so bad.

But no country can be safe 100 per cent. To say it has been destroyed 100 per cent is not true.



THE PRIVATE SECTOR • by Mark Huband

Reform takes the slow lane

Private enterprise has been slow in its response to incentives but activity is rising

Unleashing the power of private enterprise has been the most politically sensitive aspect of Egypt's economic reform process. Decades of state control had cemented the power of a close-knit business and political élite and protectionism brought big profits.

The question now is whether the old money will make way for a new generation of entrepreneurs better suited to the open market.

"The government had identified a section of the business community as necessary to encourage as investors in new sectors," says a leading private sector businessman. "This group of businessmen didn't do anything that was expected of them. Some have used the opportunity to add cash to their foreign bank accounts."

He says that the government is aware of this problem but that at the same time "real reform has also happened. This has encouraged small and medium-sized enterprises to become active".

Kamel el-Ganzouri, the prime minister, says private sector economic activity now accounts for 61 per cent of gross domestic product and will rise to 80 per cent by 2000.

The government has encouraged the private sector to invest by offering build-operate-transfer contracts for infrastructure projects in the energy sector. Private sector developers are to build three new regional airports. Since the mid-1990s all new investment in tourism has been private. Two new private sector mobile telephone systems are to be installed, and 20 per cent of the state-owned Egypt Telecom is earmarked for sale.

The private sector has been most active in areas that reflect the government's strategy of creating a parallel, private sector economy while slowly privatising state enterprises and moving towards withdrawing from all but 10 per cent of economic activity by 2000.

Tax advantages, export incentives and limited labour laws in designated investment zones have lured domestic and foreign investors to satellite cities and industrial areas.

The hope is that with improved export facilities, technology transfers, foreign expertise and investment, jobs will lure people to the new zones. Meanwhile, the decrepit symbols of public sector enterprise in the overcrowded Nile valley will wither and die or be sold.

"The question is, why is the private sector not responding to the incentives that have been given?" asks Khalid Ikram, World Bank director in Cairo. "A signed piece of paper doesn't create anything. I need to build a factory and hire labour. This is where the road blocks tend to come," he says, adding that the private sector has had little input into the reform process while the government and public often view it with suspicion.

Despite the government's commitment to sell 90 per cent of state assets by 2000, the need for cash, rather than a belief in the virtue of private enterprise, has determined the government's strategy and has slowed sales on the issue of price.

Consequently, the role of the private sector has remained ill-defined. Only nine public sector companies of the 87 in which shares have been sold have been bought by anchor investors.

Some observers believe the difficulty in finding anchor investors is a result of cautious assessments by foreigners of the macroeconomic picture – assessments which are slowly becoming more favourable.

"The commitment of the government to these policies [of liberalisation] is not in question," says Ibrahim Kamel, chairman of Kato Group, a leading private sector industrial group. "The question is whether we are going along the right track fast enough."

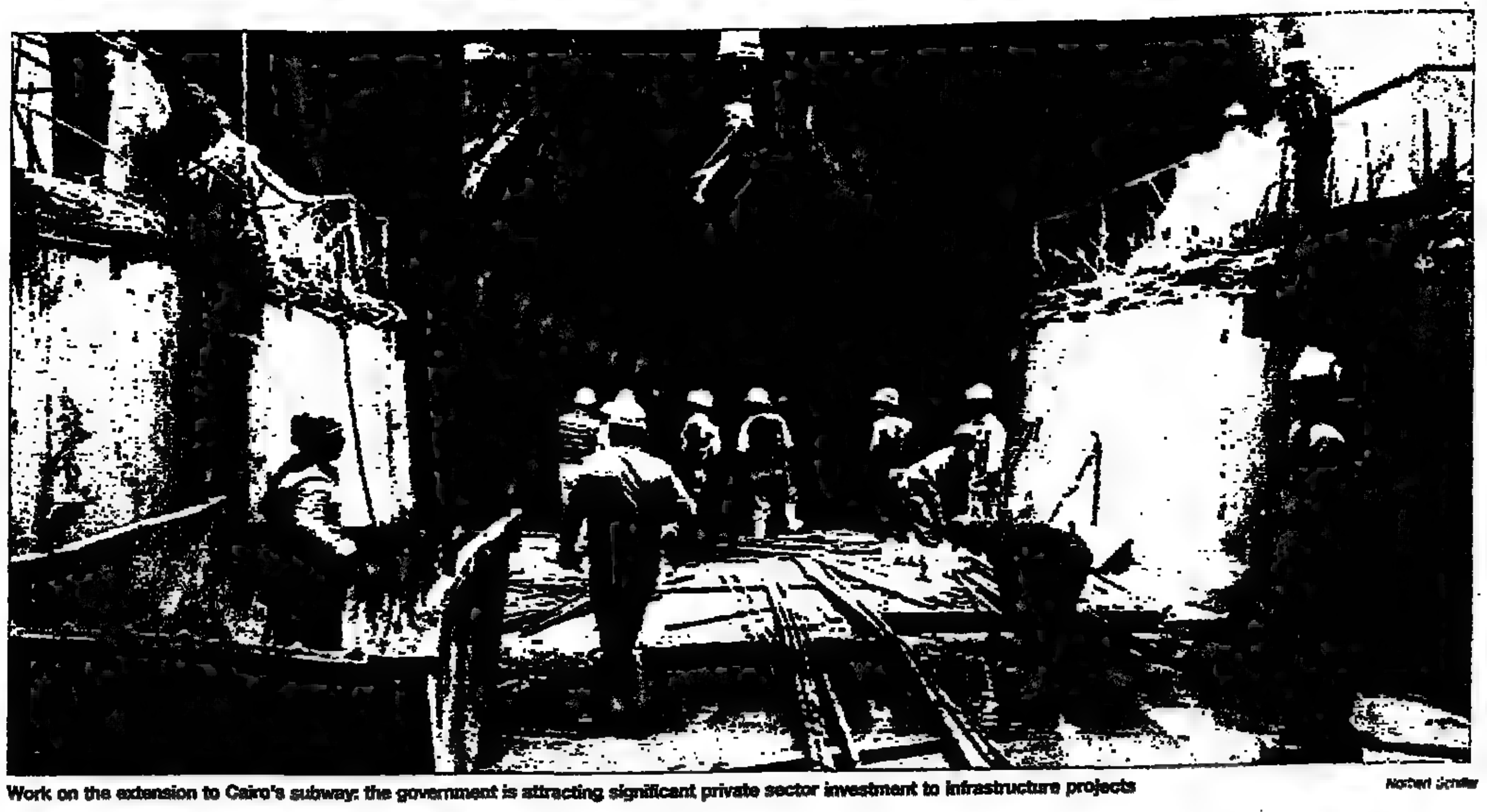
He says that while the government is gaining support for reform, the private sector must now "rise above thinking small and of looking just under their feet. They have to look forward. Even so, now is the first time the private sector has become involved in relatively large projects."

Finding vehicles for raising investment capital now dominates the agendas of Egypt's leading private sector companies. Banks remain cautious, but are generally viewed as having reacted positively to the investment drive emanating from the private sector.

"But market growth hasn't matched expectations," says Raouf Ghabbour, chairman of the Ghabbour Group, a leading vehicle manufacturer. "Five years ago I would have expected 1997 to have seen sales of more than 100,000 cars. In fact it was half that," he says. "The domestic market is expanding, but not enough to get us into serious industry."

Large private sector groups have used this period of slow improvement and economic stability to restructure. But the changes needed to face the freedoms and dangers of the free market have yet to take root.

"Bonds have caught everybody's attention," says Christopher Vaughan, managing director of HSBC Investment Banking in Cairo. "But bonds are not the real solution, because these private sector companies should be developing their capital structures. What they are focused on is getting cash."



Work on the extension to Cairo's subway: the government is attracting significant private sector investment to infrastructure projects

PROFILE Setcore

Oiling the wheels of success

Diversity and expansion are the cornerstones of the strategy now dominating the Egyptian private sector, from the smallest groups to the boardrooms of the billion dollar conglomerates.

As deregulation and privatisation have offered new opportunities, so the liquidity amassed during three decades of protectionism has allowed private sector companies to propel themselves to centre stage and sent demand for investment capital soaring.

Hidden in the maze of elegant nineteenth century streets in Cairo's Garden City district, Setcore typifies the large number of family-owned companies whose capital base and diversity of interests have formed the backbone of the private sector's resurgence.

Setcore has spent almost 30 years building itself into a group with interests as varied as food processing, oil and gas rig inspections and banking and now has a turnover of $60m.

Two sectors in which the group is heavily involved stand out as examples of diversity as well as revealing the hard-won benefits of recent liberalisation.

First, the oil industry is expected to offer new opportunities to relatively small companies with low overheads. As Egypt's oil reserves are depleted, small companies are planning to step in with plans to continue low-level extraction which large companies find uneconomical.

"Oil is particularly exciting for the Egyptian private sector because some of the big oil companies will be retreating," says Tamer Nassar, Setcore managing director. "We would create an operation for small output that would produce 2,000-3,000 bpd in marginal fields. And there are a lot of these fields around."

The success of such oil ventures for the Egyptian private sector will depend largely on the readiness of the state petroleum company, EGPC, to renegotiate concession agreements. Setcore plans to take over existing wells rather than carry out exploration. "We would be in partnership with EGPC, and I think they will realise that the nature of oil production will be changing and they will accommodate," says Mr Nassar.

"I could see us doing this with foreign partners. Enhanced oil recovery techniques require a specific expertise. We expect to be operating our own wells in less than five years."

Sectors such as the cotton industry have also dominated Setcore's activities. Once a jealously guarded preserve of the state, the government has recently opened doors to investment in this sector.

Last year Setcore's Nassco subsidiary exported 7,500 tons of Egypt's staple cotton output, amounting to 15 per cent of the total. Nassco is in a joint venture partnership with Volkart of Switzerland and has attempted to secure a role in the entire process of cotton processing, export and sale.

Convincing the state that it should open the doors to the private sector has been an uphill struggle despite the official liberalisation of the industry in 1994.

"The original idea was that we would buy from the farmer and ginn the cotton," says Ayman Nassar, Nassco managing director. "We opened three buying branches in different parts of the country. But then the government intervened and imposed a price floor of E£500 when the real price was E£400. So we would have lost.

"Now we have an agreement whereby we buy ginned cotton and are able to export at some profit.

Mr Nassar says, as well as expanding in traditional markets such as Japan, South Korea and Italy, the company has found new markets, such as India and Turkey. "We have been all over south-east Asia and Europe to find new markets," he says.

"We don't compete on price, but we do compete on service and quality. We have re-established markets which had been lost, and we are giving customers a choice as to what size bale they buy. Through these small incremental steps we have secured our freedom to operate."

Mark Huband

PRIVATE SECTOR INFRASTRUCTURE • by Mark Huband

Powerful case for co-operation

The country is now a regional model for private involvement in infrastructure

As the government pushes ahead with the creation of private sector investment opportunities not dependent on privatisation, Egypt has become a regional model for private sector involvement in parallel infrastructure projects to expand utilities and improve services.

Sidi Krier, Egypt's first venture into private sector build-own-operate-transfer power generation west of Alexandria, has been vaunted as a near-perfect tendering process in terms of its transparency. The $400m project to generate 650MW is one of two power generation plants under construction intended to raise electricity output from 14,800MW to 23,800MW by 2006 and to 43,000MW by 2018.

Intergen of the US broke new ground by offering as its bid electricity at $0.26 per kWh – the cheapest electricity in the world. The project, expected to be running by 2002, is the first stage in the government's extensive reorganisation of the electricity generation network and is a precursor to partial privatisation of the system.

While the national electricity grid will remain the property of the Egyptian Electricity Authority, seven power generation zones supplied by private sector power stations are to be formed as separate companies with shares sold to the public.

Adding value to raw materials has opened new horizons for power generation as the government assesses the real value of natural gas finds. As well as promising to be a hard currency earner capable of compensating for increasingly uneconomical oil extraction, gas is likely to become the fuel of the future for householders and industry among the neglected population of Upper Egypt.

In a $220m deal, a consortium led by British Gas International (Egypt) recently signed a 25-year franchise with the state Egyptian General Petroleum Company to build an initial 500km gas pipeline from south of Cairo to Asyut in two phases. Plans are also being considered to extend the pipeline a further 530km to Aswan. The franchise is the first of its kind in Egypt to offer the private sector the role of providing gas to areas with no supply.

BG Egypt, with its partners Edison International, Orascom and Middle East Gas Association, will construct a high pressure gas transmission pipeline linking towns along the Nile valley and create a low pressure network for supply to factories and homes. The project's first $50m phase will carry gas under high pressure from Kuriamat, near Cairo, to an estimated 20,000 potential consumers in the town of Beni Suef. BG Egypt reckons domestic and industrial demand in the area of the first phase to be about 240m cubic feet a day. Similar demand is anticipated in the Asyut area.

Plans to allow the private sector to expand Egypt's patchy phone network also break new ground. Despite fierce resistance from Soliman Metwally, the conservative transport and communications minister, the monopoly of Telecom Egypt has started to break down.

First came Telecom Egypt's issue of two licences to establish and operate public payphone systems of 20,000 lines each within five years. As strong foreign interest in the contracts has been shown, the government is realising the sector is a potential goldmine.

France Télécom, which won the first contract, will pay the government 66 per cent of revenues, estimated at about $590m during the 10-year period of the contract. Landis and Gyr of Switzerland will operate the second system, also over 10 years. Alcatel of France installed a 70,000 subscriber Global System for Mobiles cellular telephone system in late 1996 on behalf of Telecom Egypt.

Thirty per cent of the operating company, Egyptian Mobile Telephone Services Company, was sold on the stock exchange in January. The remaining 70 per cent has been sold to a consortium led by France Télécom.

Fierce competition for a second cellphone network has led to the awarding of a second licence to a consortium led by Vodaphone.

Telecom Egypt, 20 per cent of which may be floated, has simultaneously sought a private sector role in its bid to achieve a 50 per cent rise in the number of fixed phone lines to 10m by 2002. It now has agreements with three foreign companies to improve infrastructure.

Contracts for the improvement of services in specific areas of the country have also been awarded with a view to a national upgrade. NEC of Japan is installing 81,000 lines in Upper Egypt and is expected to provide digital public switching systems on the Red Sea and Mediterranean coasts.

The government has also invited bids for private sector investment in ports, airports and roads. A private sector built and operated hub container port capable of handling 1m units a year is being negotiated for a site east of Port Said. The port is likely to lead to private sector management of Damietta and Port Said ports in concert with the new hub.

A similar strategy has led to contracts being awarded for construction of two build-own-operate-transfer airports at Marsa Alam on the Red Sea and El Alamein on the Mediterranean.

Private sector transport projects extend to roads with a planned new 900km motorway linking Alexandria and Aswan being considered.

OIL AND GAS • by Robin Allen

Gas steps into the breach

As oilfields are starting to dry up new supplies of natural gas are emerging


Drilling conducted by British Gas in the Nile Delta: BG signed an agreement in April for the expansion of the country's gas system

Just as Egypt's mature oilfields start to tire, and gaps open up in the country's energy defences, reinforcements of natural gas are pouring into fill the breach.

Although export sales of crude oil and petroleum products will continue to provide the bulk of the energy sector's hard currency earnings for the next decade – $1.5bn a year before the recent price falls – all the signs are that gas is slowly taking over as the country's lifeblood.

While development programmes keep to schedule, natural gas should ensure self reliance in energy for decades, providing power for industry, job security for Egypt's soaring population and energy for new desert communities in the south and west where the government is determined to settle future generations.

On April 18 a consortium led by British Gas International signed and exclusive 25-year franchise with state-owned Egyptian General Petroleum Corporation (EGPC), to build a 500km gas pipeline from south of Cairo to Asyut, in a scheme designed to be the "spinal cord" of a gas system providing energy, from 2002, to industries and households throughout central and southern parts of the country. The consortium consists of foreign and domestic private sector companies.

Barely 10 weeks later, on July 1, Egypt's oil production will officially be set at a new lower level of 830,000 barrels a day (b/d) from its present 850,000 b/d, although actual production will have been at the lower level for the previous 18 months. Output for February and March was only 800,410 b/d and 805,806 b/d respectively, according to EGPC.

Petroleum ministry acknowledgement of the reduced production has nothing to do with Egypt's "sympathy" for recent cuts by Opec and non-Opec states, as Opec's spin doctors would have it, but is simply recognition of what petroleum minister Hamdi Ali El Banbi calls "a national decline" in oil production from mature fields in the Gulf of Suez.

The largest crude producer is still Amoco's joint venture with EGPC, Gulf of Suez Petroleum Company, at "about 310,000 b/d," says Bob Sheppard, Amoco Egypt's president in March, "and our current levels of expenditure are limiting decline to between 5 and 8 per cent per year."

Second largest is International Egyptian Oil Company (IEOC), Agip's joint venture with EGPC, at some 290,000 b/d, mostly from its Belayim and Petrobel operations in the Gulf of Suez. Other producers include Suez Oil Company, a joint EGPC venture with Spain's Repsol and Germany's Deminex with some 90,000 b/d and Shell Egypt's Badreddin Petroleum Company (Bapetco) in the Western Desert at 25,000 b/d. About 20 other companies and joint ventures make up the balance.

Despite a lack of interest from the major oil companies which are more interested in gas, EGPC is still trawling for new oil concession agreements. The response is coming largely from small independents with fewer overheads and using new seismic techniques to search in new deep areas or in areas previously thought to be dry or uneconomical.

Following last September's award in 11 concession areas, EGPC has invited bids, due in by 30 April, for another nine areas, in what Sami Shaheen, EGPC's vice-chairman for agreements, calls the "frontier bid round", because the three blocks in the Mediterranean, which are reckoned to hold both oil and gas, are up to 2,800 metres deep. "We have never dug this deep before," he says.

Barring a surprise, however, these concessions will follow established patterns by showing up more gas plays than oil. For example, Bapetco's concession in the Western Desert is less important for its oil than for its 300m cubic feet a day (mcfd), two-thirds of the total from the Western Desert.

Starting next year, another 300mcfd will come from Shell's concession at Obaiyed, west of Alexandria; and a further 200mcfd in January 2000 from Rosetta, offshore the Nile Delta, where Shell is in a joint venture with British Gas and Edison. These areas are also rich in condensates. Crude oil prospects are minimal.

Petroleum minister El Banbi is philosophical about this. He points out that despite total oil production of 4.9bn barrels between 1982 and 1998, reserves today, at 2.9bn barrels, are only 800m barrels less than they were in 1982.

"If you take proven gas reserves over the same period, 6.3 trillion cubic feet (tcf) in 1982 compared with 32.7 tcf last January 1, deduct the amount already produced, 5.7tcf, we've added 32.1tcf, including some 800m barrels of condensate," he says. "So the total reserves of liquid and oil equivalent is about the same as 16 years ago."

He says exploration and production activity has not been cut. Nor has he included probable gas reserves, which, according to industry sources, could be as much again as those already proven.

This is prudent, say oil companies, because if oil prices fall much further and drilling contractors continue to squeeze foreign operators in Egypt by raising prices, there could be delays in the development programme.

More than 40 per cent of Egypt's total gas production of 1.5bn cfd comes from on-and-offshore the Nile Delta; 30 per cent from the Western Desert and the rest from the Gulf of Suez.

Agip and Amoco, the main producers, are also the principals in four shared areas in relatively shallow Mediterranean waters, Temsah, East Delta Deep Marine, Ras el-Barr and Baltim, where the success rate for gas finds has sometimes, as at Temsah, been an extraordinary 100 per cent.

"Egypt's gas reserves have been increasing every year," says Amr Fayed, general manager of BP Middle East. "For that you must give the petroleum minister credit for making gas exploration attractive to foreign companies." Without this, operators agree, Egypt would not have the cushion of gas to fall back on as domestic power needs grow and crude oil production falls.

SOCIAL POLICY • by Michael Peel

Homes, but only for some

Those who exist by collecting garbage may not find shelter in the new cities being built by the government

El-Zabaleen is a community built around rubbish. Many of its 25,000 inhabitants earn a living by sorting the garbage of Cairo into saleable metal, plastic and wooden items.

They set aside food waste for their goats and the other animals which wander among the six-foot piles of rubbish in the streets.

El-Zabaleen is not a healthy place to live. Children look up from consuming the bright orange flesh of sweet potatoes to reveal mouths disfigured by spots and ringed by red raw skin. Flies are everywhere and diseases of the stomach, chest and liver are common.

The garbage collectors seem obvious candidates for places in 44 new communities which the government plans to build to ease the health and social problems associated with overcrowding in towns and cities.

The government intends that new communities will offer cheap housing, a healthier environment and superior social services for millions of urban-dwelling Egyptians.

But the people of El-Zabaleen think they are unlikely to be offered the chance to live in new communities such as Sixth of October City.

They think the requirements for entry favour the well-educated and those who can work for one of the numerous foreign investors attracted by reduced bureaucracy and breaks on tax and import duties.

Mounir Nawar, vice-president of the Association of Garbage Collectors for Community Development, says: "To go to Sixth of October City it is necessary to have a big job. Here there are small jobs."

The government began to develop new towns more than 20 years ago when it became clear that the fertile Nile regions could not sustain the rapid growth in population.

The growth rate may have slowed from 3 per cent in 1985 to 2.1 per cent in 1994, but the population still increases by more than 1m every year. Expansion of the old cities has destroyed about 84sq km of agricultural land annually for the past 20 years.

The building of new communities in desert regions is changing the face of Egypt, where people have historically occupied only about 3 per cent of the total land area.

The new towns, concentrated mainly around Cairo and the Nile delta, provide homes for about 620,000 people according to the National Population Council. The government estimates that new communities will offer about 3.2m jobs and house at least 15m people by the time the 44 new ventures are completed. It expects its total investment in the new towns to reach E£142bn by 2017.

Plenty of incentives exist for people to move to the new cities. Mortgage interest rates are lower, school class sizes are smaller and, according to Mohamed Ibrahim Soliman, minister of housing, utilities and urban communities, promotion is faster. People can buy houses in the new communities on better terms than elsewhere.

Hussein El-Gebaly, Mr Soliman's first under-secretary, says the government's co-operative housing authority will subsidise about half of the total cost of a house with a loan that can be paid off in instalments over 30 to 40 years.

But not all Egyptians will have the opportunity to benefit from the facilities their money helps to fund. Prospective residents are more likely to be accepted into the new communities if they are highly educated and have a job in the town.

"We have certain rules to ensure that the society is homogenous," says Mr Soliman.

Hania Sholkamy, an anthropologist and consultant associate of the International Population Council, says she can explain why the government is eager to woo well-educated people to the new communities. Regulations restricting rent increases for newly-built houses were recently abolished, with the result that many young professionals now find decent accommodation too expensive to rent. "The [new] communities address the middle class who have lost out," says Ms Sholkamy. "It is not a poverty alleviation effort. It is a way of re-integrating the middle class into the government hegemony."

Mr Soliman denies that the new communities are geared towards the better-off. He maintains that there is no pressing need to offer places in the new towns to people who live in squatter settlements and *ad hoc* communities such as the City of the Dead, the sprawling Mamluk necropolis in Medieval Cairo.

But Mr El-Gebaly estimates that 2.5m of Greater Cairo's 12m population live in 70 squatter settlements around the city. The buildings in these communities may be structurally sound but the areas tend not to be well connected to essential services such as sewerage, water and electricity.

Mr Nawar is bitter that the government seems to be paying little attention to communities such as El-Zabaleen as it spends heavily on the new cities.

Mr Soliman admits: "We will turn our attention to improving the situation in the old cities after the new communities have been established."

Paradise – for some: Sixth of October City, one of new towns being built mainly around Cairo and the Nile delta. The people of El-Zabaleen believe they are unlikely to be offered the chance to live in this type of new community *Norbert Schiller*

PROFILE Sixth of October City

Cracks in the utopian dream

On the road that runs through the desert south of Cairo, Egypt's free-market future is strikingly juxtaposed against its Pharaonic past. The simple grace of the Great Pyramids of Giza gives way a few miles later to the gaudy domes and towers of the Medialand theme park and the imported green of the Dreamland Golf Company's 18-hole course.

The modern-day monuments to western culture have been built to serve Sixth of October City, a new community raised out of the sands 40km from the centre of Cairo. If the government has its way, more than a fifth of Egyptians will live in similar developments by 2017.

"Now the life of Egypt is part and parcel of that in Europe," says Mohamed Khalil, a planner who began to develop Sixth of October City in 1982.

The new community already exhibits some of the shortcomings of the western post-war developments that Egypt is trying to ape. The design of the houses is generally unimaginative with little to excite the eye.

By differentiating residential areas by price of housing, the planners have created the kind of conditions that reinforce old social divisions, much as tower blocks in the UK isolate people from the surrounding communities. Mr Khalil admits that there is a lack of communication between neighbours in the city.

Some of his rhetoric suggests that the city is unwelcoming to those who come from non-urban backgrounds. He talks approvingly of the city's success in attracting "the most educated people" from Giza and Cairo but disparages those who have come to escape poverty in rural Egypt.

"The problem is they brought their way of life here," he says. "We can't control them very well. You find they're very rude. Sometimes they are kind of sneaky. They need at least 10 years training to understand what's in the new society."

Mr Khalil, who is now in charge of the city's public relations, seeks conformity from the inhabitants of the community he sees as his "baby". He talks of the need for strict rules and regulations to check people's tendency towards "anarchy".

But amid the vast zones of identical multi-storey apartments, there are signs that development has not been as tightly controlled as Mr Khalil and his colleagues intended. Mr Khalil says that the planners should have introduced rules on permitted colour schemes and architectural designs to avoid the stylistic clashes which characterise some parts of the town.

He points disapprovingly at a Mediterranean-style block of flats set alongside a building distinguished by curves and keyhole arches, behind which is a redbrick shell.

Some of the flats are already showing signs of external deterioration. Mr Khalil admits: "We do not do any environmental planning. We build traditional housing like that of Cairo."

Akmal Ahmad Safwat, a resident, says the lack of planning has contributed to the shabbiness of some parts of the city. The residential district close to the industrial area resembles some of the poorer parts of Cairo.

"It's crowded and not particularly clean or pretty," says Mr Safwat, a radiation oncologist at the National Cancer Institute.

Mr Safwat says he is pleased that he moved with his wife and young family to Sixth Of October City from Cairo. He cites pollution, crowds and noise as the main reasons for leaving the capital.

But he is not optimistic about the evolution of his new home town. Essential services such as hospitals and nursery schools are underdeveloped, making it hard to construct a life in the city.

Mr Safwat says Sixth of October City offers few leisure facilities and little sense of community. "We don't have a lot of friends here," he says. "Most of our good friends are in Cairo. This place is not very homogeneous."

He believes the planning authorities are making the situation worse by exploiting the steeply rising property prices. The authorities are selling land to the highest bidder without considering if the buyer's development plans are in the best interests of the community.

"It's frightening," he says. "I don't want it to be another Cairo. I don't like the way new houses are coming up in every corner."

Mr Khalil agrees that the private sector has too much influence over the development of a new town that is supposed to be a model of government planning.

The city he helped create has begun to assume a life of its own, expanding beyond its architects' control. "You know the life of capitalism," he says. "Money talks."

Michael Peel

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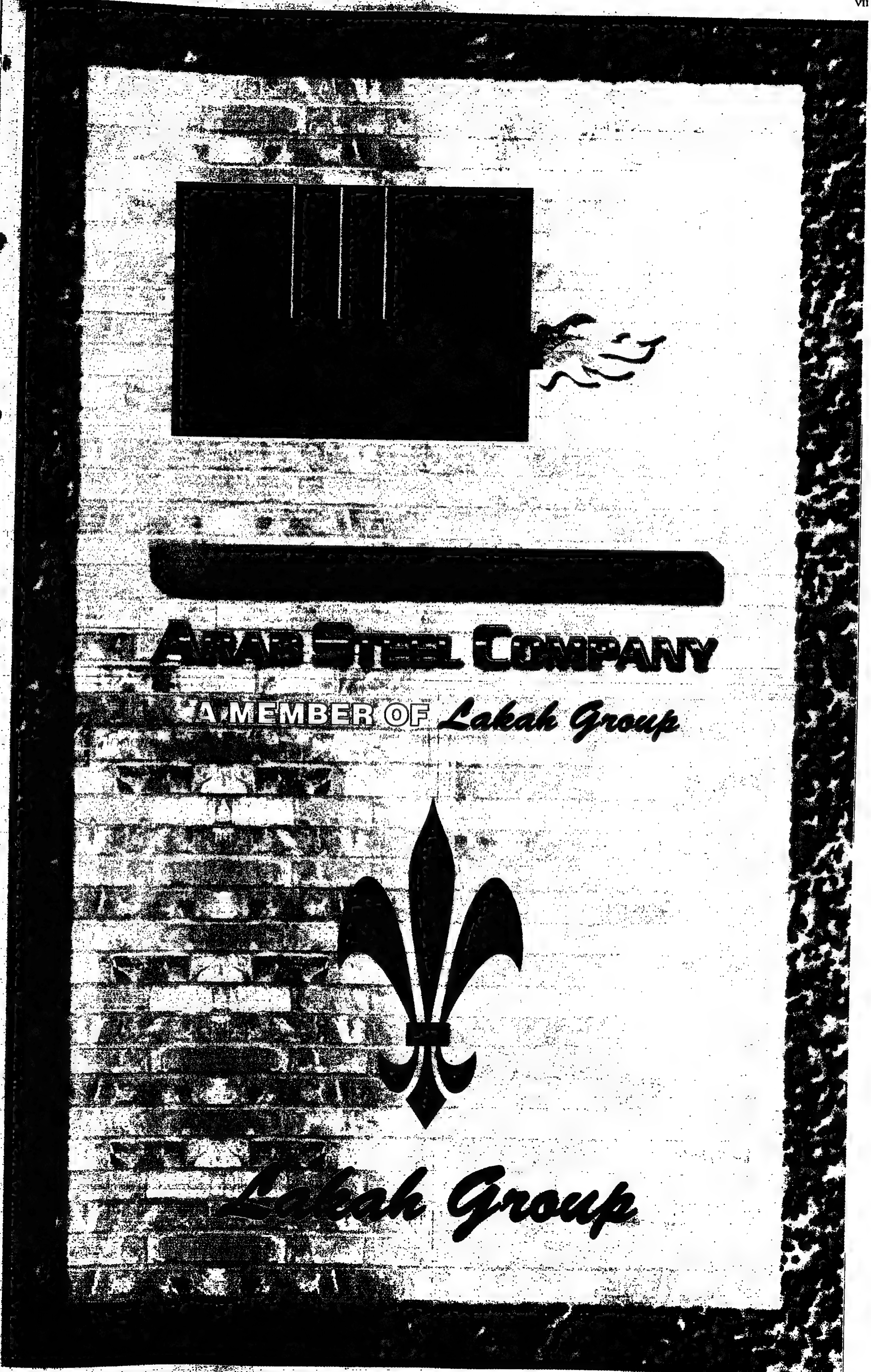
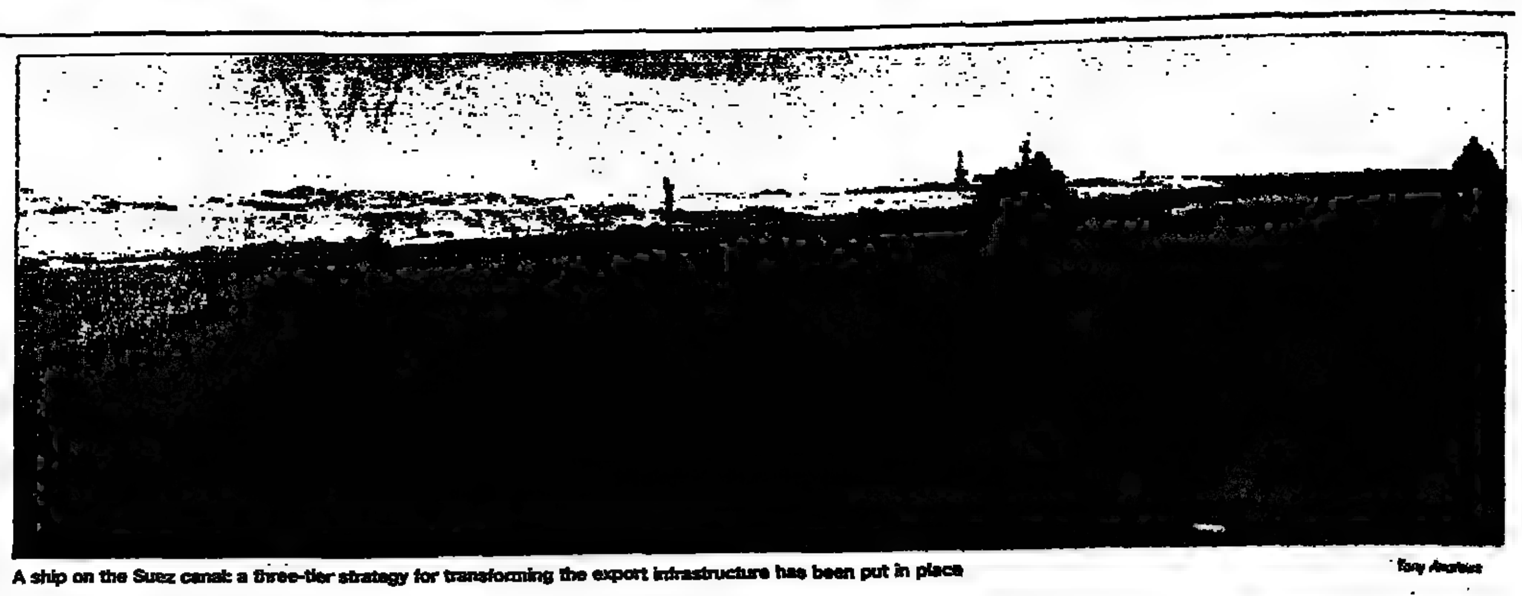


TRADE • by Mark Huband

Exporters cast their nets wider


A ship on the Suez canal: a three-tier strategy for transforming the export infrastructure has been put in place Tony Andrews

Establishing new markets abroad is linked to liberalisation moves at home

Capturing global markets is fast becoming the imperative for Egypt's economic policy makers as they face the need to reach a level of exports capable of sustaining the growing population.

While 1997 saw the value of exports rise by 6.8 per cent, according to central bank figures, the government remains intent upon reaching 11 per cent growth as a means of achieving an annual 7-8 per cent increase in gross domestic product.

With GDP growth this year at 5 per cent, widespread moves are under way to improve the quality of export products, facilitate their dispatch and find new markets. "The challenge for us and the role of the government is to expand the narrow base of exports," says Ahmed Goueli, minister of trade and supply.

"How do we encourage small and medium businesses to expand? This is done through training and showing the businessman how he can do business and be part of the global market. We estimate this process taking three years."

The shifts necessary to encourage a private sector export boom will have to be dramatic if targets are to be achieved. Of a total $4.9bn worth of exports in 1996-97, 52.3 per cent was accounted for by petroleum and petroleum products. Oil output earned the state $2.5bn in 1996-97, the central bank states.

Though vast natural gas finds are expected to compensate for an expected downturn in oil earnings, the main gas fields are not expected to come on stream for several years. Negotiations to sell liquefied natural gas to Turkey have stalled on the issue of pricing.

With 10 per cent of the Egyptian workforce engaged in export-related industries, the government believes it has a solid basis from which to tailor products to the demands of foreign markets.

A three-tier strategy for transforming the export infrastructure, put in place in 1997, concentrates on exploiting traditional exports of horticultural products, cotton, rice, and processed goods based on these products, such as frozen food and ready-made clothes. The government hopes to increase annual exports in these sectors by between 2 and 10 per cent.

Plans to build a new hub seaport and industrial zone east of Port Said and co-ordinate activity at the ports of Alexandria, Damietta and Port Said under private management are part of an ambitious strategy to improve trade infrastructure.

One of the main bottlenecks facing exporters is in port facilities, which the new port management arrangements are intended to iron out. The government is also working on contracting out customs clearance to allow quality control and pre-inspection at the port of import departure.

For exporters, plans are afoot to provide easier access to export credits and to expand the geographical coverage of risk insurance in concert with insurance companies worldwide. Information services are to be unified and made available by means of the databases accessible at the government's 69 commercial offices attached to Egyptian embassies.

"In the short term you cannot change the composition of Egyptian output," says Mr Goueli. "When we have more competition in the domestic market, people will look outside. Egyptian tariffs are going down, so this is increasing competition in the domestic market. We are also looking hard for new export sectors, in electronics and Arabic software for example."

Pressure for the liberalisation of transport facilities is growing as the inadequacy of the present system is exposed. Attempts to expand the export of fruit and vegetables are threatened by the shortcomings of the national airline, Egypt Air, and the gross inadequacy of airport handling facilities.

The carrier only has a limited cargo fleet and charges double the rates of flights from neighbouring Jordan and Israel. Plans to allow the private sector a greater role in air cargo have been laid with the aim of creating a fleet which will import and export at competitive rates.

The search for new markets is inextricably linked to the liberalisation of domestic trade and production. As what amounted to $1bn of trade with the former Soviet Union has slumped to $40m worth, Egypt has sought markets in southern Asia while also looking closer to home. Using Côte d'Ivoire, South Africa and Kenya as its hubs, it intends to build an infrastructure to facilitate an expansion of trade in sub-Saharan Africa.

Lengthy negotiations with the European Union to create a trade partnership agreement have so far failed to reach a conclusion and will not transform the value of the export sector due to the agreement's strong emphasis on agriculture.

"I am not optimistic about agriculture being our main focus for exports," says Gamal Bayoumi, assistant foreign minister and Egyptian negotiator on the partnership agreement. "We will remain net importers of agricultural goods. The trade deficit is $9bn.

"Even if the European side agrees to what we want in the partnership agreement, agriculture won't be the key to redressing the trade imbalance."

Central to Egyptian calculations made during the EU negotiations has been the assumption that it is industrial manufacturing output which must pave the way for the export increase.

Cotton and manufactured textile exports, together with engineering exports, were valued at $758m in 1996-97, or 15 per cent of the total, compared with $271m for agricultural products.

Egyptian exports will become 2 per cent cheaper as a result of the removal of tariff barriers. Coupled with low labour costs, the ambitious plans for exports are regarded as holding great potential. Once the substantial infrastructure changes are in place, however, the real challenge will be to find the markets.

PROFILE Lakah Group

Maintaining a leverage of one-to-one

From light bulbs to a private airline, the group is refining its strategy

While the Egyptian government may be throwing open the doors to competition in order to increase exports, the private sector remains keenly aware that it has some way to go before its competitive edge comprises more than merely cheap labour.

But the success of the private sector's shift from *rentier* to producer is dependent on a big improvement in everything from the availability of export credits and skilled labour to the effective streamlining of the country's port facilities.

Egyptian multinational companies are still at the stage of awaiting the creation of an infrastructure which will facilitate an export boom.

Ramy Lakah, chairman of Lakah Group, says: "Our philosophy is to work in high-technology, in which the competition is limited, and to use the Japanese method of keeping as small a stock as possible or to sell all the products in advance, to keep a leverage of one-to-one."

Using its position as regional representative for Toshiba, Olympus and Hewlett Packard, Lakah Group has created a high-technology export business with a turnover of $85m by constructing, equipping and maintaining fully functioning hospitals.

It now manages 15 in countries throughout the Middle East and Africa. Each $40m, 200-bed hospital is built to the same specification and can be fully functional in some cases in less than two years.

"We want to offer a complete solution for hospitals in the Middle East and Africa. Putting this in place will take three to five years," says Mr Lakah.

"The export priorities are to open new markets in Africa and Turkey. But our real problem is that we don't have a scheme to finance export credit. Our trade could increase by 40 per cent if there were credit guarantees."

Even so, exploitation of Egypt's export potential is now clearly determining domestic investment within industrial groups keen to be ready when the relevant export infrastructure is put in place, as the government intends.

Lakah Group recently spent E£200m ($58m) on two factories, one producing light bulbs the other soap. The light bulb business had been producing under the Philips label but was bought by the government and then sold to Lakah, which is now negotiating with other foreign electronics companies to produce under licence.

The aim is to pierce a regional market the company estimates is worth $20m.

A regional export strategy has also lain behind the creation of the group's Arab Steel Factory, producer of 500,000 tons of steel billets annually.

Of the 20 rolling mills in Egypt only two are using locally produced billets. The rest are imported from Ukraine, limiting their export markets owing to non-Egyptian content exceeding 50 per cent.

A taste for exports, and the realisation that Egypt's potential is vast while its infrastructure remains inadequate, has brought with it keen attempts to bridge the credibility gap while increasing the pressure on government to carry out further deregulation.

As well as investing increasingly in tourist enterprises, Lakah Group recently acquired a licence to run a private passenger airline, MidWest Airlines, in a $32m investment with Egyptian partners.

"The plan is to open new markets, starting with direct flights to Rio de Janeiro and Buenos Aires in September using leased Airbus A340 or Boeing 777 aircraft," says Mr Lakah.

"Even though Egypt has 6,000-7,000 visitors from South America annually, the routes are not served by Egypt Air, which is why we will be able to fly there.

"Just as important, we will also be leasing three planes to carry cargo. It is very important to have cargo, and Egypt should impose tax against all imports brought in on non-Egyptian flights.

"There are some things that it is important to protect by using taxes," he added as if to show that old protectionist habits die hard.

Mark Huband

INVESTMENT • by David Gardner

A magnet still too weak

Training and quality control are vital tools in the quest for investors' capital

The big question mark which hangs over Egypt's hitherto successful economic reform programme is whether it can attract investment, domestically and from abroad, in the volumes required to deliver the 8 per cent growth it must have to meet the needs of its fast-growing population.

Overall investment is creeping up slowly, up about one percentage point to 19 per cent of GDP last year.

But this is still far short of the 25 to 28 per cent of GDP needed to increase growth from about 5 per cent to 8 per cent and requires a near doubling of the national savings rate of around 12 per cent of GDP.

Getting this investment will, moreover, require not only a deepening of structural reform but attention to the quality of investment, particularly in management and the workforce.

It remains uncertain whether Egypt's business class can metamorphose from sheltered *rentiers*, exploiting the distortions of a state-rigged economy behind still high tariff barriers, to entrepreneurs competing in an open market, adding value and generating exports, or whether the government will accelerate its privatisation programme sufficiently to attract investors with the skills, standards and technology to make Egypt competitive.

So far Egypt has had modest success in attracting foreign portfolio investment, jumping to about $1.8bn in each of the past two fiscal years from a barely detectable $50m.

But it has only managed to pull in foreign direct investment – the real anchor and test of reform – of around $800m annually in these same years.

"Egypt is still a relatively small blip in the consciousness of most big international companies," says Christopher Vaughan, managing director of HSBC investment bank in Cairo.

Mercedes car assembly plant near Cairo: investment, while creeping up, is still too low to increase economic growth *Norbert Schiller*

The stock market has grown impressively, fuelled by the beginning of privatisation, but has yet to establish whether it is a real tool for investment capable of developing a broad investing public.

A year ago, after the first majority privatisations of state enterprises, it was hoped the equities market would develop and contribute to capital formation through closely held private companies – until recently almost a clandestine movement – being taken public.

But, after an early flurry, only a handful of companies have come to market, and occasionally in circumstances unlikely to build investor confidence.

Cairo stockbrokers say one issue last year was in a company with negative working capital, while the proceeds of another were essentially to pay off the owner's debts.

More broadly, there is an urgent need for new investment products. The rise of the equities market has not, for example, been accompanied by a debt capital market.

Some companies have started issuing corporate bonds, but often more as a quick fix to stay one step ahead of their bank creditors than as part of a longer-term business strategy.

One leading Egyptian businessman says the government has hitherto relied heavily on growing a number of large existing business groups which are little more than local franchise operators and importers.

These groups, he says, have in the main not developed managerial or capital structures or business plans adequate to their alloted task, but have been receiving credit from the four public sector banks on government say-so and could be facing "a year of grief".

In counterpoint to this, Ibrahim Fawzy, head of the General Authority for Investment, says new start-ups last year, the vast majority in small to micro ventures, invested E£18bn three times the level of 1996.

As another encouraging sign, Ashraf Shams el-Din, deputy chairman of the Capital Market Authority, says he has on his desk seven applications to set up venture capital funds.

Inside some groups, moreover, there are signs of serious attention being devoted to training and standards.

These are critical issues for all investors in a country where, as Khalid Ikram, the resident World Bank director for Egypt says, "the education system trains the workforce for the wrong things" and managerial skills are weak.

For instance, CIB, the leading private bank which is striving to build up an integrated financial services group with eventual regional ambitions, is spending heavily on training, using in part access to its former joint venture partner Chase Manhattan, says Adel el-Labban, its managing director.

In order to keep staff who come through the process, it pioneered employee share ownership, a practice which is spreading.

Ghabbour Group, which is graduating from an assembler to a manufacturer of buses and cars, is also offering stock options to prevent poaching of trained staff.

"There is very fierce competition now for young skilled labour and managers," says Raouf Ghabbour, chairman and chief shareholder. This is "pushing up salaries and rewards", he adds.

He says he has been in "a continuous process of management reshuffle for five years" but adds: "This tells me I am not building on sand and that I am moving towards improved management and efficiency and the sort of culture that generates investment ideas."

Nevertheless, the role of privatisation in attracting companies with the skills and capital to turn around ailing state enterprises will be decisive in opening up the indigenous private sector to competition.

An important signal will be if the government carries out its plan to sell a bank and an insurance company over the next year and whether this will be cautious part-privatisation or a bold majority sale.

Mr Vaughan says issues like price too often dominate privatisation strategy, which "should primarily be a negotiation about what the purchaser can bring in terms of technology, skills and new markets".

"They shouldn't try to reinvent the wheel," he says. "There are plenty of people out there with wheels. What is needed now is for these to be bolted on to the wagons here."

PROFILE Concord International Investments

Talent comes to the fore

Skill and variety are in as short supply in the Egyptian financial market as are private sector share issues. The brain drain of the 1960s and 1970s was Egypt's punishment for stamping on private enterprise.

But rapid changes in the legal environment have attracted a critical mass of expertise, without which the creation of a market would have been impossible.

Less than a decade into the process of meaningful reform, a slow but important trickle of talent has now found its way into the once moribund institutions of the capital market.

Set back from the road in the quiet Cairo residential district of Zamalek, the modest offices of Concord International Investments betray few signs of the key role that the group has played in bringing vital expertise to the Egyptian market.

Discreet and focused, Concord opened for business in Cairo in 1995 as the most experienced team of fund managers to have moved into the Egyptian market. Four years later the group is managing Egypt funds with assets of some $820m, of which $600m is in four onshore and two offshore mutual funds, making it the largest single fund manager in the country.

While Concord's most profitable business remains in the US, where it manages $1.7bn in funds out of its New York office, its Egyptian business is growing faster.

It was in New York that the company started in 1987, the idea of Mohamed Younes, who had spent 20 years working with Kidder Peabody. Then it was asked by Banque Misr, Egypt's largest private sector bank in terms of assets, to manage its first mutual fund. "We hit the ground running," says Mr Younes, Concord's chairman. "Some 13,000 people invested in the Banque Misr mutual funds within eight days of them opening.

"Half of them invested less than E£10,000. Now there are 16,000 shareholders. The entire mutual fund industry is around 200,000 shareholders.

"But they are the tip of the iceberg. There must be three to four million people who could invest E£10,000," he says.

Confidence is the key to the success of mutual funds, particularly in a market where investors are unfamiliar with the act of handing their money over to strangers who will then invest it.

"We have survived by being ruthlessly focused," Mr Younes says. "We are not worried about competition. To remain competitive you have to be good, but also have a critical size which gives people a feeling of your leadership.

"This means improving profit margins every time you increase in size, which means expanding distribution channels to individuals. The market has started to learn how to differentiate between managers."

On the assumption that the Egyptian market is going to be increasingly dominated by large private sector share issues with some utilities privatisation, Concord is planning a $350m private equity fund with which to stake its share in the new market.

"We are talking about having a large fund available so that we can take a large stake at the early stages," says Mr Younes.

"We want to have a group that is seen as an acceptable, professional buyer, to show that we have some very good quality long-term investors.

"We want to get representation from domestic investors alongside to give the comfort that this is not a fund given to foreigners. A third of the fund will be offered to the Egyptian public.

"In this we will be offering something fairly unique. We want real long-term investors."

Concord intends to remain focused on Egypt until it has achieved management of $1.25bn and may then expand regionally.

Its focused strategy has earned it a $100m capitalisation and a large number of offers from interested buyers. However, neutrality has had its benefits for the company.

"We really say that now is the time to invest, and we hope to be seen as completely neutral," says Mr Younes. "We are not part of a specific group in Egypt.

"We have no industrial or business vocation of our own. We are financial investors. The pattern of investment has been very much in clubs or groupings. It's normal. We have remained purely investors.

Mr Younes says that there is a policy in the firm of not appearing on the boards of mutual funds.

"This is an important distinction," he says. "We are not here to reform companies. We don't want to get into the fray. My responsibility is to manage portfolios."

Mark Huband

TOURISM • by David Gardner

Improved security is the key

The sector must avoid resorting to the mass market in rebuilding its business

The Luxor killings of 58 tourists and four Egyptians by Islamist militants last November was the most crippling of a hail of recent blows to Egypt's main source of foreign currency.

Coming just as the sector is trying to double hotel capacity in the next four years, the massacre has triggered a price war. This will not only hit revenues badly but could pull the market towards mass tourism – just as the industry was beginning to look at the critical issue of quality.

In the short term, however, the main challenge is to provide security for tourists, in the hope of avoiding the collapse which followed the 1990-91 Gulf crisis and the beginning of the Islamist insurgency in 1992.

By last year, confidence had been rebuilt and Egypt was expecting to top 1996's record of 3.9m visitors. Preliminary figures suggest it did – just – and earned $3.8bn. But in the immediate aftermath of Luxor, arrivals slumped 52 per cent compared with December 1996, with hotels in Luxor and other destinations in Upper Egypt, such as Aswan virtually empty.

The attack cast a pall over resort tourism in Sinai and on the Red Sea, even though these areas have until now been incident-free. This was partly because of its scale and barbarity but also because the Queen Hapshetsut Temple massacre was the latest in a string of attacks and security failures – carried out as the government trumpeted that it had defeated the Islamists.

In April 1996, *Gama'a al-Islamiya* gunmen shot dead 18 Greek tourists at their hotel near the Giza pyramids, apparently mistaking them for Israelis. In September last year, outside the Egyptian Museum in the heart of Cairo, two brothers burnt and shot dead nine German tourists and their Egyptian driver. And then Luxor.

Before this, the *Gama'a* tourist targeting, while a deterrent to visitors, had been more threat than action, making it easy for a complacent government to dismiss criticism. By most normal measures of crime, moreover, Egypt was and remains safe for tourists.

But the government refused to acknowledge it had a problem, albeit low-level, with Islamist militants. Mamdouh el-Beltagui, the tourism minister, still stresses that the Giza attack was "a political reprisal" for Israel's bombardment of Lebanon that April – a regional rather than Egypt-specific incident. The authors of the Museum attack, he underlines, "were not part of an organised group" – suggesting an isolated incident.

But in the case of Luxor, he says, "we admitted it was an organised *Gama'a* attack", and before it took place he had called in cabinet for more stringent security for tourists. President Mubarak had immediately dismissed the interior minister, purged his aides, and instituted "a new, freshly articulated, more dynamic security system".

"Terrorist incidents happen everywhere and cannot be entirely prevented in even the most advanced states," he says. But "only the press insists on torturing us with these questions."

Security has since improved immeasurably at important tourist sites and hotels – although a better organised group than the *Gama'a* could probably penetrate it.

Nevertheless, the measures should suffice – if the authorities persist with them. During the Giza attack, for instance, only one of 15 police officers on duty in the area turned up for work. One of the Museum attackers had four years earlier shot dead three foreign businessmen in a Cairo hotel. The government placed him under lax supervision in a mental hospital – even though his Islamist convictions were well documented at the time. And as Mr Mubarak himself angrily pointed out, the nearest policeman to the Luxor massacre was 2km away.

High-profile "fact-finding" missions have since endorsed the tightened security. But everything will depend on the follow-up. Exactly the same is true, says the manager of a leading hotel, of tourism's other great challenge: sustaining standards and service.

On the one hand the sector has succumbed to a room rates discounting war at a time when large amounts of new capacity is coming on stream. But on the other, too many hotels are trying to recoup revenue by charging near-international prices for food and services, while still unable to provide anything like international standards.

"Once you get into a price war, it's very difficult to pull back," says Matthew Shackel, direct of marketing for Marriott, which has the leading Cairo hotel, as well as other properties in Sharm-el Sheikh and the Red Sea resort of Hurghada. In real terms, most hotels had only just recovered the pre-Gulf war room rates at the time of Luxor.

At the same time, the industry could be luring cut-price tourism, balanced by inflated local charges which discourage repeat visits. Stiff competition could create dependence on this unsatisfactory formula, with further deterioration in everything from food hygiene to prompt message delivery. This would make it even harder to get back to the higher spending, lower density tourism Egypt seeks.

"It is pointless to pretend that we are providing a good service, even though many of us have turned our attention towards training," says one hotel manager "We need to progress very fast in this, otherwise the character and value of the Egyptian market will change."

Time for this cultural change in the country's main service industry is short. Capacity, at 75,000 rooms, has quadrupled in the past two decades but is set to double again within four years. Some 665 projects are under construction worth E£37bn, Mr Beltagui says.

The head of a big international construction company says that projects with international backing and money should eventually prosper, and that the government is becoming more sensitive to their environmental impact. But many hotels, he warns, "are going up on spec" and could be hit badly, particularly since many new entrants to the sector are highly leveraged.

Mr Beltagui says many in the sector "do not have a good pricing policy", although he points out that most hotels are run by, or linked to, international companies.

Egypt, he says, is "far, far from saturation". What it has to offer is unique, with 12 months of beach, a high proportion of the world's antiquities, nature at its purest from the Red Sea reefs to the desert and the oases, and, "whichever way you look at it, the quality-price relation is favourable".

"This is a sector of hope," he says. But for the estimated one in seven Egyptians directly or indirectly dependent on it, hope, at the moment, is all they have got.

A crippling blow to the sector: Egyptian soldiers leave the area where they killed militant gunmen involved in an attack on tourists in Luxor in November 1997 Mohamed el-Dakhakhny/AP

PROFILE Luxor

Luxor struggles to forget the violence

In October last year, Luxor, home to such wonders of Pharaonic antiquity as the temple of Karnak and the Valley of the Kings, was heaving with tourists and celebrities as it staged Verdi's Aida in the temple of Queen Hapshetsut. Not one of the suites at its finest hotel, the Old Winter Palace of King Farouk, was available to the ministers descending from Cairo to herald the renaissance of Egyptian tourism.

Percentage occupancy in Luxor 5-star hotels in 1998

Hotel	Jan	Feb	Mar
Mövenpick	[illegible]	[illegible]	[illegible]
Sheraton	[illegible]	[illegible]	[illegible]
Winter Palace	71.1	[illegible]	[illegible]
Hilton	7.2	[illegible]	[illegible]
Sonesta	[illegible]	[illegible]	[illegible]

Source: Egyptian Tourist Authority, Luxor

New hotels like the marble and mahogany Sonesta, built by a prosperous local jeweller and looking over the fat of the Nile to the valleys of the Kings and the Queens, opened their doors in confident expectation of 100 per cent occupancy through the October to May winter season. For the first time after the slump of the 1991 Gulf War and since Islamist militants started targeting tourists in 1992, the livelihood of Luxor looked secure.

All that ended on November 17 when six gunmen from the *Gama'a al-Islamiya* massacred 58 tourists and four Egyptians at Queen Hapshetsut's temple, slaughtering and mutilating their victims before being chased off by villagers and then cornered and killed by police who, during the carnage, were nowhere to be seen.

Soon after, Luxor was empty. Even now, polythene wrappers remain on the entrance pillars to the Sonesta, where the smell of paint lingers. The city's 70,000 inhabitants have been left to contemplate rows of vacant horse carriages, moored cruise boats and listless feluccas, echoing hotels and eerily empty temples and tombs.

"This is our life," says the food and beverages manager of the Winter Palace. Luxor has nothing but tourism.

Government attempts to avoid a destructive price war and mass redundancies in the wake of the massacre have had limited success – although few in the industry are willing to volunteer information.

Moharam Haggagi, manager of Viking Travel, a leading operator in the UK market vital to Luxor, says tour operators are setting prices at best to cover running expenses. A package including direct flights and a week's stay at a three-star hotel which sold at £460 in October is now typically being offered at £249, he says.

Between a third and half of tour operators in Luxor have laid off staff, although Viking is keeping on all its 77 employees at half pay.

At this end of the market, however, discounting will have little effect until direct charter flights are fully restored. In January there were only 32 flights, bearing 2,459 passengers, compared to 285 flights carrying 37,434 in the same month last year.

The Egyptian Tourist Authority in Luxor hopes normal charter links – especially from the UK, France, Italy and Spain – will be restablished this month. But by then the high (winter) season will be over.

At the top of the market, the five-star hotels have fared marginally better, filling some rooms with Egyptian visitors at the end of Ramadan in February, and with corporate conference business that President Hosni Mubarak more or less instructed Egyptian companies to conduct in Luxor.

However, this is a one-off effort dependent on huge discounts, and restoring normal room rates could be a long haul.

Samir Azer, assistant manager in charge of the Sonesta in the indefinite absence of its American manager, hopes for 50 per cent occupancy by October, and perhaps a full house by 2000. However, he acknowledges that heavy discounting is changing the character tourism and that this could make it doubly difficult to rebuild rates and revenues. "These are not people who spend, but occasional travellers taking advantage of rock-bottom rates," he says.

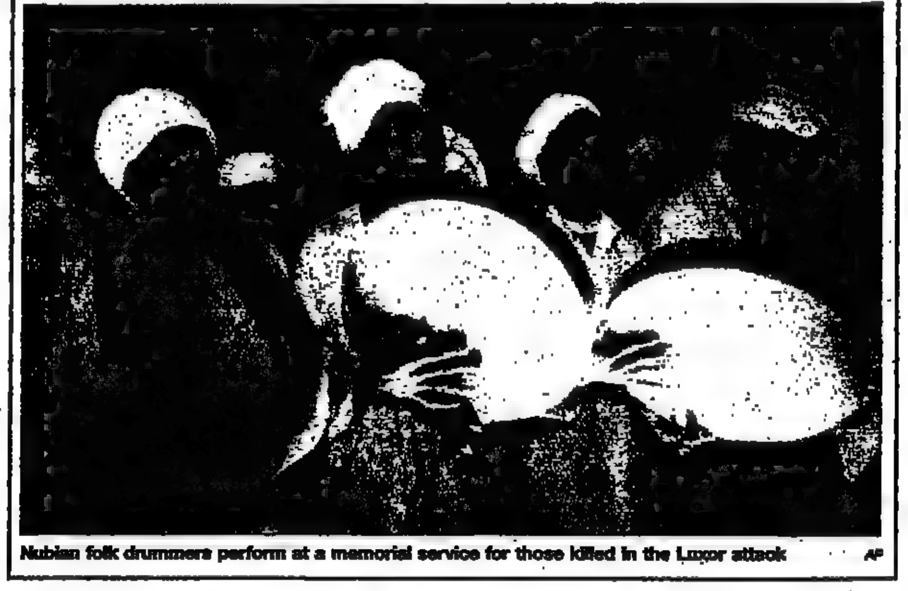
Only the Old Winter Palace, owned by Sofitel (Accor of France) – which has two other historically redolent hotels; the Old Cataract at Aswan and the Cecil in Alexandria – has refused to alter its rates, its staffing – or its strict dress code. "We have to respect our clientele," says manager Michel Baud.

Security has greatly improved since the massacre, with well-armed paramilitaries and plainclothes police at the sites, the hotels, and on the roads at checkpoints and escorting convoys. Mr Baud says: "The best police are the people of Luxor – they are the ones who have had to pay for this."

"Things are bound to pick up again," says Lomie Abdo, manager of the local Tourist Authority delegation, "because we have, and we will continue to have, so many of the world's treasures of antiquity."

But no one is expecting a short-term recovery. "I am not optimistic," says Mr Baud. "This was a really big shock and I think it will take three to five years – if nothing else happens. People need time to forget."

All the people of Luxor are now praying that "nothing else happens" to further damage the industry. "If it does," "it will be the end of tourism in Egypt for a long time."



Nubian folk drummers perform at a memorial service for those killed in the Luxor attack AP

ENVIRONMENT • by Michael Peel

Green light still awaited

There is a gap between the rhetoric and the practices of companies

A trip by train to the Mediterranean port of Alexandria, once synonymous with culture and refinement, lays bare the effects of the Egyptian government's failure to develop an environmental policy.

The neglect is evident in the black fingers of smoke traced by the industrial chimneys above the Nile, in the rubbish which dulls the glitter of the fishermen's catches and in the litter around the fort which marks the former location of the Pharos lighthouse, one of the seven wonders of the ancient world.

The government's recent actions suggest it has finally begun to appreciate the need to address these pollution problems.

It recently appointed its first environment minister to pursue policies set down in a 1994 environment act. The act established the Egyptian Environmental Affairs Agency to oversee the imposition of new controls on activities ranging from heavy industry to tourism.

But some doubt if the agency is in a position to compel powerful industrial interests to comply with the new regulations. It is not independent of government and is short of legal powers and inspectors.

The agency itself admits it could do with more resources to help enforce legislation on industrial emissions which will come into force early in 2000.

Its first two-month inspection programme covered only about 50 companies out of a total of 1,000 large industrial establishments. If small and medium-sized enterprises and cottage industries are taken into account, there are a total of 380,000 factories operating in Egypt.

Yasser Sherif, director of the EEAA's industrial compliance unit, is confident that business is taking the emissions targets seriously. Almost 200 companies, including most of the biggest polluters, have submitted action plans to show how they propose to comply.

He says that he will draft in the support of environmental experts in regional governorates to put pressure on companies which do not make reasonable efforts to meet emissions targets.

"We don't want to be a big bureaucracy," he says. "We wish to be small and active and work through others."

But Dr Alec Estlander, who works with the agency on a pollution abatement project, is less confident that the governorates will prove effective in enforcing the new regulations.

"They are very poor both in staff and in other capacities," he says. "They are not well trained and not experienced in dealing with industrial pollution.

"They are short of everything – telephones, office facilities, computers, knowledge, libraries."

Others are concerned that the EEAA might be reluctant to seek penalties against recalcitrant companies for fear of antagonising the government, which is aggressively pursuing economic growth.

People who work on environmental projects in Egypt commonly refuse to speak frankly on the record because, as one American says: "People tend to get very upset whenever anything critical is said."

There is certainly an air of nervousness about some who work in sensitive policy areas.

Esam el-Badry, director of the department of nature conservation, refuses to answer questions on the telephone about the damage caused to national parks by tourism, which the government is trying to promote.

He will only say: "We are not responsible for the deterioration of the past 10 to 15 years. We haven't done much, but in the future we hope to do something."

The government's approach to tourism developments will do much to reveal the commitment underpinning its recently discovered environmental awareness.

Some environmental workers fear that plans for sustainable development will be rendered irrelevant by the sheer volume of tourists expected at the coral reefs of Sinai and the Red Sea coast.

El Gouna, an east coast resort based around a vast artificial lagoon, is a case in point. The vast luxury town, which will shortly be served by its own airport, hospital and school, is held up by many as a model of sustainable development.

But others doubt that El Gouna is as environmentally friendly as it seems. Michael Pearson, programme manager of a mainly EU-funded conservation project, says the developers have "done a lot" to minimise environmental damage, but adds that parts of the project have had negative effects on the surrounding area.

"In order to satisfy the designer's concept, they have done a lot of digging," he says.

Ahmed Sultan, a project co-ordinator for Orascom, the developer, argues that the area was a "dead zone" before construction began.

He says he does not know if the company assessed the potential environmental impact of the development prior to starting construction. "I should know, but it seems as if we have a miscommunication," he says.

His words reveal the gap that exists between the EEAA's rhetoric about environmental awareness and the cultures of even the most progressive companies.

The agency and its allies acknowledge that business will only change its attitude if it thinks that serious punishment awaits those companies which do not obey the new controls.

As Dr Estlander puts it: "My judgment is that if we don't get enforcement the credibility of the environment will be gone for quite a while in Egypt."

INSTITUTIONAL REFORM • by Mark Huband

Shuffling the pack slowly

Civil service reform is long overdue if the nation's targets are to be met

Playing one game with two packs of cards is the essence of Egypt's reform programme. Nowhere more than in the overmanned, under-productive, cobweb-infested offices of the bureaucracy is the need for skilful shuffling more apparent.

"In Egypt we do things gradually," says Ibrahim Fawzi, chairman of the General Authority for Investment. "Many government employees look for work for themselves. A lot of obstacles may be removed if they are kept happy. But we are not trying to get rid of them. The price would be too high. The cure may bring with it another condition that would be more serious."

The authority, to which would-be foreign investors must present themselves on deciding to register and establish companies in Egypt, employs 1,400 people. Mr Fawzi says it could function with 50.

Such overmanning and the risks involved in reducing this burden, have yet to be addressed by the government. In some departments key appointments have been made with the intention of creating quasi-parallel bureaucracies.

While the old guard carries on as if the winds of change had never begun blowing, highly educated and underpaid technocrats are doing the real work.

"There is a limited growth of people now training at the policymaking level," says Mauro Mecagni, International Monetary Fund representative in Cairo. "This is an important impediment to carrying out policy reform. I don't think there is a problem of reform commitment, but I think there's a problem of implementation capacity."

The cost of these parallel systems has been kept down by relying on the goodwill of the technocrats. The problem will come when the cost of maintaining the old bureaucracy surpasses government capabilities.

"We have stopped employing new people in the government," says Kamel el-Ganzouri, the prime minister. "Minimal efficiency will take four to five years to achieve."

Meanwhile, little reform of vital institutions has taken place, heightening the importance of individual reformers. The removal of one of these individuals could create a serious crisis.

"What we need is to develop the institutions that generate economic decisions," says Youssef Boutros-Ghali, minister of economy. "The right decisions were made in the early 1990s. Decisions were taken correctly. They were indigenously taken decisions. But there was no process, so no repeatability. We have to be able to repeat it and get the same result."

Mr Boutros-Ghali says he wants to create institutions that can generate these kind of decisions. "I want institutions that underlie the new orientation of the economy to be developed," he says.

"I want to spend lavishly on the institutions of governance, because to my mind what caused the south-east Asian crisis and made it graduate to a catastrophe were fundamental flaws in governance, not the wrong economic direction."

Criticism is mounting over the absence of dialogue between government and the main target of the reform process, the private sector. While a number of private sector-backed economic think-tanks operate in Cairo, their influence on government policy is minimal.

"You look into each institution, from the public sector companies to the ministries to the big newspapers, and you get the feeling that from the chairman down they are all huge institutions with one strong man on top," says a leading private sector businessman. "You look into the organisations and find there is no one to replace him. What if this man disappears tomorrow?"

Control of Egypt's reform programme has remained firmly in government hands. A side-effect has been the absence of pressure for some of the most difficult decisions to be made. Civil service waste has yet to be confronted. More important is the impact on economic reform of the work patterns within the civil service.

"What we really need here is civil service reform," says Khalid Ikram, World Bank director in Cairo. "And it is needed in every area. The man providing electricity. The man digging the trench for the sewage pipes."

Mr Ikram believes that such excessive overstaffing and poor pay will create delays. "The Ganzouri government has been tackling this," he says. "But many of these things you cannot tackle head-on because the political consequences would be enormous."

Egypt's bureaucracy undoubtedly remains a deterrent to investors, whose needs are met with new laws but whose existence is threatened by the bureaucrats charged with carrying out those laws.

"These aren't things you solve in a generation without causing a revolution," says Mr Mecagni. "There is an extremely high degree of cohesion within the policy-making group. They will implement something only when there is consensus. There is a great sense that particular measures are the initiative of the Egyptian government, and not imposed from outside.

"But I am concerned about the future, that there is too small a back office behind these reforms."

FOCUS The bureaucracy

Turning red tape into high art

Cairo ministry's foreign investor unit employs 1,400 to do the work of 50-60

During the 1980s, Abdel-Rahman Abdel-Meguid, the late deputy prime minister, was fond of telling his many western friends: "We did not invent bureaucracy, but we've had 5,000 years to perfect it – to the point where we consider it an insult for anything to be completed."

He would say that a new file, on being handed to a ministry official, might need processing by, say, 10 departments, from point A to point J, before being completed and returned to its owner.

However, no self-respecting civil servant present at the creation of such a file would deign to open it without first placing it at a safe distance, whence it could be observed for several weeks in case it showed dangerous tendencies, such as moving without permission. It would then be allocated a resting place on his desk.

From that vantage point, it could be safely used in the construction of a pyramid of similar files, or as a repository for dust, feet, or cigarette ash. It could also be picked up and shown to any passing colleague before being replaced to gather dust and, if damp enough, act as a "wet nurse" for spores of mushrooms.

After years of fruitless struggle, during which no file in any of his ministries got beyond point C, Mr Abdel-Rahman resigned and emigrated to Boston, where he died, reconciled to the fact that, in Egypt at least, some things never change.

Ibrahim Fawzi will confirm this. Mr Fawzi, a former minister of industry and mineral wealth, is now the respected president of the General Authority for Investment and Free Zones (GAFI), part of the economy ministry.

The sole aim of Mr Fawzi's official life is to entice foreign investors and ease their way into the mainstream of Egypt's economy by helping them set up plants or offices in one of the country's numerous free zones. "Little is being done to reform Egypt's bureaucracy," he says.

"Free zones or not," groaned one prospective investor emerging into the bumper-to-bumper chaos of Adly Street in downtown Cairo after a meeting with Mr Fawzi, "I still have to deal with the *Mugamma*." The *Mugamma* is special.

The mere mention of the word gets the same kind of reaction from an Egyptian as the words KGB or Lubyanka prison can from a Russian.

Dominating Tahrir Square in central Cairo, the *Mugamma* is the "headquarters" of Egypt's bureaucracy – a gaunt and massive monument of Nasserite socialism and the glories of Soviet 1950s architecture.

The prospective free zone investor was right: he can have his plant in a free zone, but, if he wants to live in Egypt, send his children to school, get a driving licence or permit for a power or water connection, he cannot avoid the *Mugamma*.

In the two years since the *Mugamma* last opened its doors to public scrutiny, two conspicuous changes have taken place. Not improvements, changes. The shoeshine boy, who used to do a brisk trade on the ninth floor, has had to move his stand to outside the building. "I could not get a permit," he said, grinning sheepishly. Does he have one now? He rolls his head and grins from ear to ear. His shoeshines are still brilliant.

On the ground floor, a large crowd gathers in front of four elevators. By the resigned look on the faces, some could have been waiting two years. No change there. But above the elevator doors have appeared great white chalk marks informing the visitor that the two lifts on the right go to the floors with even numbers and the two on the left to the floors with odd numbers.

Innovation indeed. So why is everyone concentrated at the door of the lift on the far right? Because after two years, it is still the only one working.

As Mr Fawzi says, in Egypt they like to do things gradually.

Robin Allen

PROFILE EgyptAlum

Shares fallen? No problem

Anyone listening to Zaki Abdo Bassyoni, chairman and executive manager of the Aluminium Company of Egypt (MISR Aluminium/EgyptAlum) could be forgiven for wondering whether the government's programme to privatise key industrial companies is not something of a charade.

Certainly, the advent of several thousand local private investors on to Egypt Alum's book has done nothing to blow away the cobwebs in the company's fusty Cairo head offices.

Among loose wires and dysfunctional printers, a shouting match erupts in a room down a corridor. The secretary brushes aside the disruption: "A board meeting is in progress."

Last February the state's Holding Company for Metallurgical Industries floated 3m shares, 7.5 per cent, of EgyptAlum's stock in an initial public offering. HCMI set aside a further 4m, 10 per cent of total equity, for EgyptAlum's employees, effectively leaving HCMI controlling 82.5 per cent of the shares.

After being touted by brokers six months earlier at a likely price of E£75 a share, EgyptAlum's valuation was affected by softer global aluminium prices which had fallen by $100 a tonne to $1,540, still a long way above EgyptAlum's production costs of $1,220.

In the end the offering was barely subscribed, mostly by domestic investors, at the reduced offer price of E£71.25. The share price has since fallen to E£69.

The public issue did nothing to dent state control over EgyptAlum, which has a monopoly of the domestic market, benefits from tax breaks for expansion projects and easy access to finance from state banks. The company's share capital is E£400m, with nearly three times as much in cash reserves.

Net profits have averaged 17.5 per cent over the past three years, giving a return on equity of almost 17 per cent, more than double the industry average, according to industry sources.

Senior management, if Mr Bassyoni is any guide, reflects the corporate mindset of a state monopoly, working to well-tried rules and conventions within a familiar political structure, indifferent to shareholders.

Mr Bassyoni dismissed the notion that the public offering had turned out an anti-climax. "Sale of shares to the public is no concern of mine," he said. The share price had fallen 8 per cent in the previous three months. "That is not my business."

Mr Bassyoni's apparent complacency could be justified. As an industry specialist, he is respected by his peers. "He runs a decent show," says a Gulf industry executive. The company exports 80 per cent of its semi-finished products and primary aluminium, 80 per cent of which go to Europe where they benefit from the European Union's 8 per cent preferential tariff, worth $100 a tonne.

Founded in 1969, when Nasserite socialism still prevailed, EgyptAlum began operations in 1975, the year after President Anwar Sadat inaugurated Egypt's "open door" policy and three years after he had expelled the military "advisers" from the former Soviet Union.

Soviet technicians built the 170,000 tonnes a year capacity smelter at Naga Hamadi, north of Luxor, which is now running at 183,000 tonnes. After modernisation and expansion production will have risen to more than 300,000 tonnes a year with annual production costs cut to $1,100.

Robin Allen

INSURANCE • by Michael Peel

Prospects at a premium

Cultural and religious barriers are restricting the growth of the sector

The man from the Misr Insurance Company gestures proudly towards a collection of tarnished silver trophies. "We won that award 11 years in a row from the government for being the best insurance company in the Middle East," he says.

Misr's run of success reflects the uncompetitive nature of Egypt's insurance industry. Misr is the biggest of three state-owned insurers that dominate the market along with the public sector Egyptian Reinsurance Company, the only professional reinsurer. Youssef Boutros-Ghali, economy minister, says these four companies account for 90 per cent of life insurance business and 70-80 per cent of the non-life market.

But Misr may find further awards harder to come by. The government, determined to develop the role of insurance in Egypt, plans to privatise the state-owned insurers and change the law to allow overseas insurance businesses to operate in Egypt and own majority stakes in Egyptian insurers.

Mr Boutros-Ghali says the public pays the equivalent of 0.5 per cent of GDP in insurance premiums each year. In the US the value of insurance premiums equals 3 per cent of GDP. The disparity is partly due to income differences. Ahmed Ezzat Hammoudah, general manager of the privately owned Mohandes Insurance Company, says few Egyptians can afford to take out insurance. "Do you think people are going to have life insurance if they don't have a flat to live in?" he says.

Moslems at prayer: some see insurance as a form of gambling, which is proscribed by Islam AP

Cultural and religious barriers also hamper public acceptance of insurance, which some see as a form of gambling, which is proscribed by Islam.

Ahmed el-Helw, managing director of Intercapital Securities, a brokerage company, says many view insurance as an unnecessary expense rather than an essential safeguard. "We think it's another form of tax we have to pay. We don't know anything about the products of insurance." Financiers working with insurance companies say the Egyptian industry has done little to dispel this view.

Tim Major, deputy managing director of the Egyptian British Bank, says the level of professionalism among insurance companies is not high. "You get a quote and they come back and say: 'Our senior assessor has looked at the risk and he is not prepared to take the risk on board for the price that was named'."

Companies have too many administrators and too few salespeople. Misr, for example, says it needs to double its 1,000-strong salesforce and cut its administrative staff of 3,000 by one-third.

Others in the financial services industry say insurance companies do not offer the kind of schemes that appeal to the customers they want. "I have bought insurance outside Egypt," says Aladdin Saba, managing director of Hermes Fund Management, part of EFG-Hermes, a brokerage and finance house.

Insurance companies dismiss suggestions that their products are inferior to those of overseas counterparts. "We are more familiar with our country than they are," says Mohamed Elteir, chairman of Misr. "There will be some competition but everyone will survive. The market is big."

But the big insurers cannot necessarily afford to be complacent about the prospect of foreign competition. Misr has been sustained by its E£4.5bn investments in property, equity and cash. Less than half its E£120m profit last year stemmed from its premium income of E£600m. Profits on premiums have been squeezed by excess capacity. Mr Hammoudah estimates the supply of insurance is 10 times greater than demand.

The companies say they have also been adversely affected by the abolition of a law setting tariffs for some types of property insurance. "Companies have to maintain the same rates and offer increased cover," says Mr Hammoudah. "Or we have to cut premiums."

Downward pressure on prices seems likely to increase once foreign insurers start to exploit Egypt. Observers foresee mergers between Egyptian companies and say smaller insurers may struggle to survive.

Mr Saba says the domination of the state insurers might buy them enough time to make the changes needed to compete with overseas rivals. "The foreign companies will kill them," he says. "But they will not go bankrupt as they will have time to regroup. The three big guys will remain the three big guys and one or two private guys are going to be in bad shape."

BANKING • by Michael Peel

Legal shake-up on the way

Excess capacity means mergers are inevitable among smaller institutions

Egypt's banks face the prospect of a wide-ranging regulatory shake-up prior to privatisation of one or more of the four giant public sector operators.

"We are hoping to review the whole banking law," says Dr Ziad Bahaa-Eldin, legal adviser to the Minister of Economy. "Parts of our law go back to 1957, taking in the period of full nationalisation as well as the current liberalisation. We would like to compare the law with modern laws elsewhere in the world."

Dr Bahaa-Eldin declines to set out a timetable for regulatory reform. He says the review is a prerequisite for any state bank sale.

His remarks seem to confirm suspicions in the financial services industry that the government is delaying the start of the privatisation it has promised. Some bankers already predict a lengthy postponement.

"I don't see the real privatisation coming for six to seven years," says the director of one foreign bank in Cairo.

The wait will add to the anticipation of investors eager to buy into companies which enjoy a near-oligopoly. According to research by Fleming Mansour, the four public sector banks together account for 70 per cent of commercial bank assets, 65 per cent of loans and 60 per cent of deposits.

In addition, the state banks hold stakes in some of their private sector counterparts. Dr Bahaa-Eldin says the public sector banks are limited by law to 40 per cent holdings, although some of them effectively own larger stakes.

The government's cautious approach to the sell-off is consistent with its handling of the privatisation of other state-owned companies. Christopher Vaughan, managing director of the HSBC Investment Company Egypt, says the government is worried about the job cuts which will almost inevitably follow privatisation.

He says: "There are going to be social costs in the privatisation process and the politics of privatisation are a nightmare."

The government may also need time to restructure the banks' finances in preparation for a sale. Many observers say the public sector banks suffer from a relatively high proportion of non-performing loans as a result of lending money to loss-making state industries.

Mr Vaughan says: "I look at the banks' involvement in some big projects and I look at the relatively small amount of project finance that has come from outside, and I wonder about the Egyptian economy's exposure to itself."

Operationally, the outlook for the state banks is healthier, even though their market share is in decline.

Banque Misr and the National Bank of Egypt win praise from their competitors for significantly improving their performance. The National Bank of Egypt has successfully marketed credit cards and Banque Misr has developed an extensive network of automated teller machines.

"Banque Misr and the National Bank of Egypt have come a long way and they are seriously competing," says Tim Major, deputy managing director of the Egyptian British Bank.

Like many others, he thinks that the government may lead into full privatisation of the industry by merging Banque du Caire and Bank of Alexandria, the other two public sector banks.

Mergers are seen as inevitable in an industry which is experiencing low margins on lending as a result of excess capacity.

Fleming Mansour says Egypt has 60 commercial banks, 35 of them locally incorporated and 21 of them branches of foreign banks. "All the small banks are now growing," says Ahmed el-Helw, managing director of Intercapital Securities. "I wouldn't say that the quality of service has improved tremendously, but at least now the standards and norms of the industry are known. The margins are narrowing down."

The industry's profitability has been further undermined by a recent government effort to cut down tax avoidance. Banks are no longer able to swap profits for tax-free interest income from treasury bills and government securities.

Fleming Mansour predicts that in the medium term corporate taxes paid by banks will probably rise from zero to 34 per cent, the average for non-bank stocks.

Ossama Nassar, managing director of Fleming Mansour Egypt, says the regulatory change has forced banks to improve earnings from their normal business.

But the pace of development is steady rather than spectacular after a number of years of rapid change.

Since 1991 exchange controls have been abolished and company credit ceilings scrapped. Foreign banks can now deal in Egyptian currency and fully own local subsidiaries.

The banks are waiting for the turmoil to begin again when details of privatisation and regulatory change are announced. As Mr el-Helw puts it: "Commercial banking is developing, but nothing new, nothing serious. No sharp movements."

PRIVATISATION • by Mark Huband

Battle to convince investors

The government's lack of faith in market forces has been holding back progress

Time has so far been on the side of Egypt's privatisation programme.

Battling the accusation that it has lost its nerve, the government has nevertheless faced the increasingly difficult task of convincing investors that it is indeed a "programme" for which there is a clear timetable.

Now time is running out if the benefits are to be realised and the needs of the market met.

The government has set a target of privatising 10 companies a quarter during 1998. Similar targets have been set since the privatisation programme was launched in earnest in 1996 but have rarely been adhered to.

Shares in 87 public sector companies have now been sold, a mere nine as majority sales to anchor investors. Of the rest the state remains the largest single shareholder in 39, has sold 16 to employees, liquidated 14 and retains significant shareholdings in the rest.

"There is a strong political will to privatise, and I have clearance to sell up to 90 per cent in everything except pharmaceutical companies and flour mills," says Atef Obeid, minister for public enterprise. "But the course of movement and the speed is always determined by the quality of performance you want to achieve.

Mr Obeid says this means maximising the value of sales to relieve the burden of debt and finance labour restructuring. He adds that lack of confidence in the economy was a disincentive to investors until recently.

Changing public perceptions has also been necessary, he says. "The public were told for more than 20 years what the building up the public sector meant for Egypt. Telling people that what they have been told is no longer true is not easy," he says.

Anxiety has hampered privatisation despite the government now having earned E£7.5bn ($2.2bn) from the proceeds. While the government may have tentatively liberalised the economy, it has not liberalised political control and has retained more than a whiff of autocracy.

Central to its strategy has been a readiness to debate only as long as it is allowed to win the arguments. Critics among parliamentarians and the media say assets are being sold too cheaply.

"This accusation damages our reputation," says Mr Obeid. "Even with our president and prime minister in favour of change, it's not enough [to convince public opinion].

"The solution to this is time. But you have to set a date to complete the process. For us that date is 2000. In the meantime, you cannot sacrifice the price."

Few MPs and certainly even fewer in the media have any real idea as to whether assets are being correctly priced, as the pricing mechanism itself is far from transparent.

However, the issue has a serious impact on the forecasts that players in the growing financial services sector are increasingly eager to make. "Price isn't the key, but privatisation stumbles on the thorny issue of price," says Christopher Vaughan, managing director of HSBC Investment Banking in Cairo.

"It is a lack of experience. It is one of the areas which makes Egypt an emerging market. Price-earnings-based valuations are not the answer to everything," he says.

Two recent privatisations have exposed the government's vulnerability to the pricing issue. The issue of shares in the Egypt Aluminium company was dramatically undersubscribed due to overpricing when a downturn in world prices was excluded from calculations.

Later, the pricing of licences for two privately-run Global System for Mobile telephone networks was seen as having paid scant regard to any realistic calculations as to real worth, with decisions based on the private sector's readiness to pay.

"The people in the government who are doing the privatisation are not experts. They are government officials," says Ahmed el-Helw, managing director of Intercapital Securities, a leading Cairo securities broker. "We have a lot of faith in the government's commitment to privatisation." But if they make the mistake of being too slow it will bring the whole thing down to the ground."

Others, however, regard the rapid awarding of the mobile telephone licences as a sign of the government's readiness to act quickly to exploit market conditions. The two licences earned the government a total $1.05bn in royalty fees.

"What the telecoms sales have done is to lead the biggest [overseas] investment banks to think that Egypt has arrived," says Mohamed Younes, chairman of Cairo fund manager Concord International Investments. "These firms are sensing that Egypt is getting to the size where it is worthwhile for them to look at it."

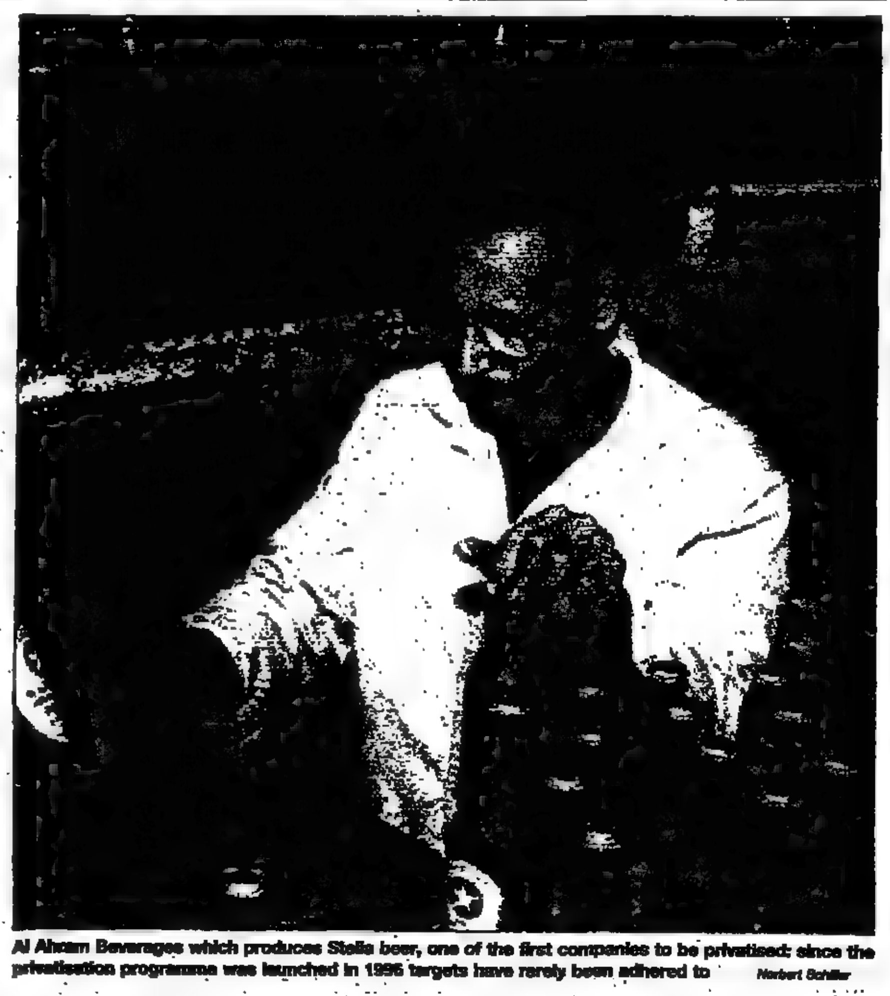
Even so, privatisation is increasingly functioning as the government's cash-cow. Its retention of control over the part-privatised public sector reflects not only a centrist streak but also a lack of faith in market forces. "The problem is in the pricing policy," says Mohamed Taymour, chairman of EFG Hermes, Egypt's leading investment banking house. "It needs to be more flexible. It has to respond to market conditions. If you are selling at a time when the market is low, you have to be prepared to sacrifice either price or quantity. We are beginning to see some signs of inflexibility."

And, while encouraging private sector involvement in utilities has created an arena for investment, it has helped the government put off definitively lancing the boil of public sector economic activity.

"What we are doing now will give us a chance to accelerate the privatisation process," says Kamel el-Ganzouri, the prime minister. "The function is to help to create a new climate for the private sector. I will keep myself and the government in charge of specific areas like education, health and social requirements. But, when you are talking about production, we will keep it for the private sector."

Doubts as to the extent of the government's confidence in the private sector have emerged as its failure to formalise a dialogue has become more apparent.

"Everyone in the government is too scared to take the right decision," says Ahmed Zayat, chairman of Al Ahram Beverages, privatised in 1997 as the first highly successful sale to an anchor investor. "They are scared of doing things because they are scared of being accused of corruption. This slows things significantly."



Al Ahram Beverages which produces Stella beer, one of the first companies to be privatised: since the privatisation programme was launched in 1996 targets have rarely been adhered to Norbert Schiller

هكذا من الأصل

CAPITAL MARKETS • by Mark Huband

Firing industry's engine

Creating the capacity to handle large share issues is now the priority

Extricating itself from the shackles of antiquated bureaucracy while streamlining regulation through prudential legislation, the Egyptian capital market is the engine whose strength and speed will determine the country's industrial future.

Within three years it has hoped that stock market capitalisation will more than triple its present \$20.9bn level to reach \$70bn-\$75bn.

By so doing it is hoped interest rates, now around 9 per cent, will fall to allow an increase in bank lending and thereby create an entirely new corporate bond market.

Creating the capacity to handle large share issues, particularly in the light of the growing likelihood of utilities privatisation in the coming years, is now the priority.

The recent heavily over-subscribed issue of shares in mobile telephone companies revealed the extent of investor interest and the availability of liquidity.

Infrastructure changes within the capital market, the growing flexibility of banks as lenders and investors through investment funds and the capacity of the fledgling brokerage business to handle large volumes are now the preoccupations.

"We have now to press for an acceleration of infrastructure changes to be able to cope with the large issues that are going to come," says Sherif Raafat, chairman of the Egyptian Stock Exchange.

"When we started the [regulatory] Capital Market Authority wanted to do everything. Now the ESE is becoming the driving force. We are an incubator."

The ESE has taken on the role of policing the stock exchange. A complete overhaul of its functions has been launched since Mr Raafat was appointed last year.

A computerised surveillance system is to be installed and the dissemination of reliable market information is to become routine. However, other concerns remain.

"The most dangerous element is the capital formula [for financial intermediaries]," says Ashraf Shams Eldin, CMA deputy chairman. "A decision has to be made on what should be the minimum capital as cases could arise where the assets and liability of the companies are the same.

"We are following this. The issue requires continuous inspection, collective insurance for all brokerage firms to cover their professional liability, a guarantee fund and a compensation fund for investors in case of broker bankruptcy."

Infrastructural reform may raise the heat inside the "incubator", but finding the food to nourish the market remains the greater challenge.

Fourteen brokerage companies now have 70 per cent of the business despite the CMA having registered a total 200 financial intermediaries. The 30 largest brokers have only 300,000 accounts while 66 per cent of trade is in holdings of less than 50 shares.

The emphasis is now on encouraging the growth of mutual funds, of which 19 are investing in the Egyptian market, as a measure intended to encourage Egypt's 1.8m individual investors to spend more and widen the investor base.

Opinions vary widely as to how fast the capital market can be expected to grow. "The individual investors left the market last year. They began selling," says Mohamed Taymour, chairman of EFG-Hermes, a leading Cairo brokerage and investment house.

"Local retail investors have been net sellers in the past year. If you want them back you will have to wait. Usually they come when the market is close to peaking.

"There are still a couple more years to go before the idea of mutual funds really becomes established."

He predicted that the capital market might have the capacity to contribute 2-3 per cent of GDP three years from now, far below CMA hopes of 15 per cent.

Onshore and offshore mutual funds are currently managing investments of almost \$2bn in Egyptian stocks.

Despite a slowdown in privatisation in the second half of last year, foreigners remained net buyers for 14 of the past 15 months, buying \$4.3bn worth of shares and selling \$2.4bn.

While buyers may remain numerous, what is required is something to buy. Disappointment has surrounded the reluctance of no more than a handful of Egypt's private, family-owned companies to offer their shares on the stock exchange.

Though this is partly explained by the unattractiveness of price-earnings ratios of nine, the attraction of the capital market as a source of investment finance has in fact still not cemented itself in the hearts and minds of the country's private sector.

"For most of 1996/97 Egypt was primarily a retail market," says Mr Raafat. "Fund managers were positive investors. The challenge is to get more depth."

Such is the speed with which the capital market has evolved in less than two years, the relative absence of market depth has not detracted from the pursuit of real breadth in the meantime.

Egypt does not merely have a capital market to speak of – it has the makings of a substantial financial services sector, in which seven applications for previously unheard-of venture capital funds have been lodged and five underwriters licensed.

"The capital market accounts for 47 per cent of capital formation," says Mr Shams Eldin. "Savings really are going into the financial sector.

"The financial sector could contribute up to 15 per cent of GDP. Is there a financial services *sector*? I can't say no, judging by the services being rendered."

On the move: a complete overhaul of stock market functions has been launched — Ashley Ashwood

PROFILE Intercapital Securities

Appetite for a big deal

Waiting for the floodgates to open is a daily preoccupation for the young, smart traders who symbolise Egypt's move towards creating a vibrant financial services sector. Appetites have been whetted and, while some big deals have been struck, many more are awaited.

As fast as the capital market has emerged on the financial horizon, so the institutions whose energy will determine its character have created a local market with a global outlook.

The task is formidable, and only the serious players are likely to last long. "What we are doing is investing heavily in our own infrastructure to try to infiltrate more and enlarge our base of clients," says Ahmed el-Helw, managing director of Intercapital Securities.

In the 15 months since it began trading the company has secured 21 per cent of Egypt's brokerage market and has been involved in 60 per cent of the privatisation issues at the heart of government economic reform since 1996.

Juggling the need for rapid growth in capability and credibility with the need to keep an eye on prospects for the market has become more complicated in the face of tighter regulation of the brokerage business.

The aim of the regulation is, brokers say, in part intended to sort out those among the 140 registered brokers capable of taking on serious business from those who should merge or go to the wall.

At present 70 per cent of the Cairo brokerage business is in the hands of 10 per cent of the brokers. Intercapital Securities, with a staff of 48, is seeking market dominance through a mixture of high quality service and a local and foreign mixture of clients of 28-72 per cent.

Fifty-one per cent owned by CIIC, a leading Cairo investment bank, and with ING Barings in the final stages of securing 29 per cent of the company, Intercapital's sound financial base has been complemented by the chance to exploit its foreign partner's training facilities.

The task facing brokers has been to offer a credible service when handling privatisations while seeking to broaden the shareholder base. Most challenging, however, has been convincing the private sector it should open its doors, dilute its ownership and sell its shares.

In this environment Intercapital has prized open doors behind which private sector companies have hidden for years.

"We have a quality service, providing clients with information that is credible, drawing on what we think is the best [company] research department in Egypt which we have created ourselves," says Mr el-Helw. "We have set new standards of execution and have created a [market] reporting system to keep our clients informed."

Strategy in the rapidly changing Egyptian market is dominated by the ability to react to new conditions. A year ago the government appeared intent on accelerating privatisation. In the past six months the pace has slowed. Meanwhile, private, family-owned companies have slowly emerged from their cocooned existence and sought finance on the stock exchange.

"The private sector isn't very active, but it is getting there and is the driving force on the market," says Mr el-Helw. "Tailoring company strategy and style to the variety of private sector clients now dominates. We have our own strategic goals. We are looking at the market as a field to invade."

Mark Huband

POLITICS OF THE NILE • by Mark Huband

Thicker than blood

The water flowing down the River Nile is the key to foreign policy in the region

Throughout a decade of tension between Egypt and Sudan over the issues of Islamic fundamentalism and border disputes, engineers from both countries have carried out a daily inspection of the water level at the Aswan High dam in southern Egypt.

In accordance with a 1959 agreement, Egypt is permitted to allow 55.5bn cubic metres to pass through the dam. When this level is reached, the sluices are closed – without argument.

However, the development of plans to exploit the river and the availability of more investment capital allowing projects to be realised, have heightened the stakes and are likely to wield increasing influence on the regional policies of the 10 Nile riparian states.

The rivers that tumble from the Ethiopian highlands to form the Blue Nile are reckoned by technical experts seeking to draw-up a development masterplan for the Nile, the Nile Basin Action Plan, to hold sufficient hydro-electric power potential to provide electricity to every home in Sudan and Egypt. Sudan's southern Sudd swampland, if the White Nile was properly irrigated, could make one of Africa's poorest countries self-sufficient in food.

The potential for power-pooling is vast. At present Egypt is planning to divert 5.5bn cu m of water annually from the Nile basin along a new canal being built at Toshka in southern Egypt.

To meet this need, and to allow irrigation of reclaimed desert land elsewhere, it will need to find an extra 15bn cu m through either recycling or new allowances.

While Egypt has developed a strategy for securing part of this increase – by better water re-use, canalisation projects it intends to complete in Sudan and careful water management – Ethiopia complains that Egypt is not allowed to divert water from the basin, even when that water is already inside Egyptian territory.

The issue of water is the largely unacknowledged centrepiece of Egypt's policy towards its southern neighbours and lies behind its diplomatic initiatives in the region. "What we are facing is an important issue. We are looking to avoid a crisis," says Amr Moussa, Egypt's foreign minister. "There has to be a scheme based on good relations and co-operation," he says. "That is why stability is important.

"The partition of Sudan would militate against this. Water is one of the issues involved in the issue of peace in Sudan."

For the first time since Sudan's civil war was reignited in 1981, Egypt is actively involved in brokering talks between the warring sides. Furthermore, it is trying to find a solution to the civil war in Somalia, an involvement regarded by regional states as further evidence of its wish to assert itself among the states with whom it must deal if it is to renegotiate the Nile water-sharing agreement.

By assisting in Somalia, which is not a riparian state, Egypt is cementing its relations with interested states such as Kenya and Ethiopia, which are.

"The reality we face today with regard to the Nile waters, and the future prospects if the present trend continues, is a free-for-all scramble," says Mohamed Hagos, chief engineer at Ethiopia's ministry of water resources.

Ethiopia's desire for a greater role in the management of the region's water resources stems in part from the very existence of Egyptian-Sudanese co-operation. Ethiopia could have signed up to the 1959 agreement but chose not to. To this day it has no official water quota despite being the source of the Blue Nile.

Need may play a growing role in determining the future ties of regional states. But more important than need is potential.

Plans to exploit the Nile and the availability of investment capital are likely to wield increasing influence on regional policies *Tony Andrews*

The Nile, a 6,058km waterway, has the potential for turning desert and swamps into the fertile breadbasket of north-east Africa and much of the Middle East. Friction, while accompanied by a degree of co-operation, is likely to mount as plans for a basin-wide development strategy evolve.

Tecconile, a grouping of engineers from the 10 riparian states advised by the Canadian International Development Agency, the UN Development Programme and the World Bank, has spearheaded technical assessments of the basin's potential.

Negotiations over the plan will become increasingly political when Egyptian hopes of reducing its reliance on the Ethiopian-sourced Blue Nile in favour of the Sudanese-sourced White Nile emerge in the discussions.

Annual loss through evaporation from the Blue Nile amounts to about 7bn cu m. Egyptian-backed plans for canalisation, dam construction and improved drainage in Uganda and Sudan are intended to cut annual losses through evaporation of 136bn cu m from the White Nile by 10.5bn cu m.

Egypt hopes to renegotiate its annual quota on the basis of increased flow from the White Nile. Alone among the Nile states, it has the economic weight to procure the necessary investment for the projects which will bring this loss reduction.

While it is unlikely to act as the beleagered Sudanese regime's banker, it can use its influence to dilute Sudan's international isolation in order to procure investment and improve Sudan's position in the eyes of bilateral donors.

Ethiopia, which backs exiled Sudanese opponents of the regime in Khartoum, is likely to regard such developments as self-interested Egyptian meddling intended to strengthen a regime in Sudan of which Addis Ababa is immensely suspicious.

Water, it appears, may become thicker than blood as the politics of the region come increasingly to be drawn on the basis of shared resources rather than ideological differences.

PROFILE The South Valley

Opening up new frontiers

Thirty feet down on the dry concrete base of an unfinished canal in the middle of southern Egypt's baking desert, swirling gusts of wind tear at the fragile stems of newly planted trees and shrubs. Mini sandstorms erupt every time a vehicle moves and massive black sheets of polyethylene flap and howl in the wind.

This is the Sheikh Zayed canal. To the west, unrelieved desert stretches across 5,000km and six countries to the Atlantic coast. Cairo is 1,000km to the north, the Red Sea more than 400km to the east across barren mountain ridges. No railways and few roads penetrate this cruel environment. With good reason did the ancient Pharaohs keep to the banks of the Nile.

But the new Pharaohs – President Gamal Abdul Nasser in his day, and Hosni Mubarak now – have had other ideas: man must control the waters and the wilderness so future generations of Egyptians can settle and turn the desert green. It is a vision on a grand scale, but one many Egyptians believe is part of their 5,000-year-old birthright.

The name of this dream is bland: the South Valley Development Project (SVDP). This 20-year programme – inaugurated by President Hosni Mubarak last January and costing an estimated £E300bn – aims to turn this wilderness into 1m acres of irrigated fields for crops and orchards for olive, vines and fruits, medicinal herbs, oil seeds and livestock. The government is committed to spending £E60bn-90bn and hopes the rest will be financed by local and foreign investors in agriculture, construction, industry, infrastructure and tourism.

Local officials, quoting public works ministry figures, say that every irrigated acre will create 4.0 job opportunities at a cost of $5,000 an acre. Critics deride job opportunity estimates as "bureacratic pipedreams" while they say the financial costs could be four times official estimates.

Spokesmen for international agencies, who say they have not yet been approached over possible financing, are maintaining "a thundering silence" over the whole scheme.

The SVDP is the core of a more ambitious plan to increase inhabitable land across the country from 3 per cent to 25 per cent. To do this, cultivatable land has to be increase by 3m acres to 10.5m.

At the heart of the SVDP project is Lake Nasser, the world's largest man-made lake containing 55.5bn cubic metres of unpolluted water stretching more than 500km from President Nasser's Aswan High Dam in the north deep into Sudan south of Wadi Halfa.

The canal is its main artery. Through it will pour 5.5bn cubic metres of water annually from Lake Nasser with the help of giant pumped into the new waterway by a giant pumping station on the lake shore at Toshka. Costing $440m, it will built in four years starting this month by a consortium led by Norway's Kvaerner Construction International.

The dream is that when completed it will run 310km north by north-west to the oasis of Baris and possibly even further, on through Kharga and Dakhla to Farafra, nearly 1,000km from Lake Nasser.

But the canal may not be needed beyond Baris, for satellite imagery has revealed the existence of vast aquifers under the area, containing an estimated 7,000 times the volume of water in Lake Nasser. Most is too deep to extract economically, but the water at 60-150 metres below ground amounts to an estimated 200bn cubic metres, four times the volume of water in Lake Nasser.

To the relief of many Egyptians, suspicious of the potential costs of presidential "dreams", the Toshka project has been divided into stages with the first stage itself divided into two phases.

The first 50km phase, named after Sheikh Zayed, the ruler of the oil-rich Gulf state of Abu Dhabi – "in recognition of the support he has given Egypt over the years" say local officials – is well advanced. By the beginning of April, 4,500 workers had cut 24km of the canal, although only six of these had been waterproofed.

The next phase, extending the canal another 30km, will include building four branches off the canal, one of them for prospective Saudi investor Prince Al-Waleed Bin Talal, to irrigate 500,000 acres on either side.

To encourage investors, the government is offering a 20-year tax exemption and zero customs duties on imported capital equipment. Local companies can buy land at $14.5 an acre. Foreign companies can rent land for up to 49 years at $3 an acre.

Some investors are rising to the bait. The most notable is Prince Al-Waleed, whose Kingdom Agricultural Development Company, Egypt, (KADCO), could invest $1bn, including the purchase of 416,000 acres, to build self-sustainable communities, including mosques and hospitals, where up to 30,000 people could live.

The prince's decision depends on a report being prepared by management consultant Arthur Andersen. Key issues include price of the land, soil studies and the quality of roads. KADCO has already found "a strong supply of ground water".

Getting Prince Al-Waleed on board would be the kind of publicity the government is looking for to confound its critics. "Every new scheme will to have its sceptics," says John Elgin, an Australian desert irrigation specialist with Arthur Andersen. "But we are negotiating with the government to make the development viable, and we see it as a commercial proposition."

Robin Allen

MEDIA • by David Gardner

The state goes on the offensive

The government has started to tighten its control over the written press

The crowded river banks of Cairo have suffered much architectural abuse. But outstanding in its utilitarian ugliness is an intimidating if ramshackle edifice that would not look out of place in Cold War east Berlin or Bucharest. Invariably flanked by armoured personnel carriers, this could be a presidential office; a prime ministerial annex; the seat of an intelligence service.

It is none of the above, for it is the Television Building – the sort of fixed strategic asset that low-tech coup plotters would have once headed for to proclaim their countrymen's liberation.

The building, housing part of the Egyptian state's apparatus of media control as well as broadcasting facilities, is emblematic of the pre-modern mind-set on the media of a government otherwise committed to reform and modernisation.

Reflecting this attitude was the launch two weeks ago of Egypt's first satellite, the $160m Nilesat 101, with capacity to beam 84 channels across the region. But although it was hoped this would be a lever to break the hold of Saudi Arabia on regional broadcasting, Nilesat, owned by a consortium of the communications ministry, state banks and an army-run arms manufacturer, will be barred to private broadcasting, yet to arrive in Egypt.

More disturbing is the government offensive against the written press, which has seen the imprisonment of three leading journalists this year with 34 others awaiting sentence, the closure of the independent weekly *Al-Dustur*, and a ban on over 30 weeklies and magazines.

No single reason explains the clampdown, or indeed other government moves to further restrict freedom of expression and organisation.

Over the past six years, the regime has faced a low-level Islamist insurgency, led by the *Gama'a al-Islamiya* with episodic attacks by Islamic Jihad, the group which in 1981 assassinated Anwar Sadat, President Hosni Mubarak's predecessor.

But the security forces – by using massive force against militants, sympathisers, suspects and their families – had largely confined the violence to a small triangle in Upper Egypt.

The government has been as implacable with the more mainstream pan-Islamic Moslem Brotherhood, intervening to ensure their defeat in the professional unions they dominated, shutting them out of electoral politics and jailing their new generation of leaders.

True, the *Gama'a* and its sympathisers have staged three devastating attacks on tourists, culminating in the Luxor massacre of 58 foreigners and four Egyptians last November, badly denting the authorities' triumphal claims that they had defeated the fundamentalists. But the medium of the Islamist militants is the mosque, not the media, where they are largely confined to the crime pages.

Of the journalists so far jailed, Magdi Hussein and Mohammed Hilal, editor and reporter respectively on *Al-Sha'ab*, a paper close to the Brotherhood though registered to the Labour party, were sentenced for allegations of corruption against the son of the former interior minister – sacked after the Luxor killings.

They were not allowed to produce evidence that they said proved their case. Gamal Fahmi, a Nasserist journalist on *Al-Arabi* and editor of *Al-Destour*, was jailed ostensibly for defamation – under an old law now superseded – although colleagues believe he was made an example of for his political views.

Al-Destour itself, which is published in Cyprus, was banned after publishing what purported to be a *Gama'a* communiqué threatening three leading Coptic Christian businessmen – a sensitive issue for the government and for the investors it is trying to lure.

The threat, which some local journalists and businessmen believe may have had more to do with business rivalries, was also published in the sensationalist magazine *Rose al-Youssef*, whose editors were removed and replaced by a former Mubarak spokesman.

Then, last month, the authorities went after the glossy English language weekly, the Cairo Times, a thoughtful and profitable paper financed by advertising and sales revenues. The issue which incensed the government carried an interview with Khalil Abdel-Karim, a liberal Islamist writer known as the "Red Sheikh", whose books have been condemned by the state's clerical authorities.

To hit the Cairo Times, the Investment Authority banned all publications, 34 in all, published in the industrial Free Zones, a scatter-gun approach which comically failed to prevent the circulation of the offending issue.

The press, in short, is heavily controlled. It is dominated by seven so-called "semi-official" or parastatal publications, led by the daily *Al-Ahram*. Virtually all the tolerated political parties, allowed walk-on parts in a parliament where the government electoral vehicle controls 94 per cent of the seats, have their own papers but a tiny readership.

Access to the market is subject to licence by the government-nominated Supreme Press Council, which almost never issues permits, leading to 30 legal cases against it by refused applicants.

It would in any case be hard to compete with an organisation such as *Al-Ahram*, regarded as a key institution of the state. It has a virtual monopoly on advertising and distribution, a dominant position in printing, and extensive interests in everything from publishing to property.

Al-Ahram nevertheless houses a moderately plural stable of commentators, and publishes serious weeklies in English and French. This, however, can be seen as part of domination by the "semi-official" press, since it is only they who can get new publications licensed.

The quality of the press, moreover, is generally low, with meagre salaries for journalists topped up by commissions on advertising or paid articles, or stipends from regional governments from Saudi Arabia to Libya. At the top of these organs, especially in the dominant parastatal press, the editor's main job is to listen to His Master's Voice.

Continued on page 15

AGRICULTURE • by Robin Allen

Toil brings few rewards

Egypt's farmers are leaving the land because of government reforms

Pity the Egyptian farmer. Nature ordained that he should thrive. His is a country of rich soil, abundant sunshine, a Nile-fed irrigation system allowing three crops a year, and yields, particularly for rice and sugar cane, among the highest anywhere. The cotton is world famous. Wheat, maize, clover, all kinds of fruit and vegetables – you name it, nature says he can grow it.

But man ordained otherwise. For centuries, before the 1952 Nasserite revolution ushered in 30 years of "land reform", Egypt's peasant farmers were often bullied, badgered and tormented by rich land owners. Most farmers were share-croppers, who had to hand more than half of their harvest in cash and kind to land owners and absentee landlords.

The 1952 revolution did away with large land owners and the "wicked" landlords, and replaced them with bureaucrats who told farmers what and how much to grow, where to sell it (only to the state, of course and at 50 per cent below prevailing international prices), how much to borrow, even what equipment to use.

So Egyptian farmers did what farmers everywhere do. They stopped growing those crops most affected by state interference, notably cotton and sugar cane, in favour of mundane produce like vegetables, which could be sold on a parallel pseudo-private market less distorted by bureaucratic meddling.

The effect on production in general, and exports in particular, was devastating. The value of the latter had dropped to a mere $138m by 1982.

Production and exports of cotton, the country's only cash crop and the most prized of all Egypt's commodities on world markets, were particularly hard hit. Over a 30-year period from the mid-50s the area of land devoted to cotton growing declined by two-thirds.

Sweeping reforms in 1986 included legislation to abolish state interference in farmers' production and marketing,which resulted in more land being cultivated and production picking up. Exports began to recover.

By fiscal year 1992/93 (July 1-June 30), these amounted to $377.6m; a year later they totalled $540m; and by 1994/95 they had reached $615m.

But it was a false dawn. All the time production and exports were increasing in aggregate terms, they were falling as a proportion of total exports. By 1996, according to Saad Nasser, adviser to the agriculture minister, these amounted to only 14 per cent of the total, less than half that of a generation before.

With so much of their time and effort devoted to circumventing red tape, farmers had had no time to learn the secrets of marketing and exporting in competitive international markets. And they are still slow to learn.

Lack of marketing and packaging skills is one of many problems. In the past decade production and transport costs have risen; the political legacy of the Nasserite years has left Egypt over-dependent on export markets in the former Soviet Union and its satellite states, whence demand has dropped. Worst of all, the 1986 reform did not bring about change in procedures among the country's bloated bureaucracy.

So now, even though a third of Egypt's workforce of 16-18m is still in agriculture, total agricultural export has started falling back to the levels of 15 years ago.

In 1995/96, according to the American Chamber of Commerce in Egypt, they amounted to only $320.7m, less than 7 per cent of the total. Last year they fell again, to $271m, 5.5 per cent of total exports. Exports of Egypt's celebrated long-staple and extra long-staple cotton were worth a pitiful $107m.

At least under Nasserite socialism, the farmer had two forms of security he had never known before; fixed rents and security of tenure. The ceiling on land rents, according to Mahmoud Abdel-Fadil, economics professor at Cairo University, was set by the state at seven times the value of the symbolic land tax. In addition, not only was it impossible to evict tenants, they also had the right to hand their smallholdings down to their children, who automatically inherited the same security of tenure.

Egypt's 5m farmers can be divided into three categories. At the bottom of the social pile are more than 3m labourers. Next come about 1m tenant farmers cultivating between two and three acres each. At the "top" are medium-large owner-farmers and land owners; the former farming 20 to 50 acres each, and the latter up to 100 acres an individual.

The middle category of tenant farmer is threatened by a law passed in 1992, which came into effect last October, whereby land owners can charge market rents and deny tenants the right to pass land on to their children.

Mr Abdel-Fadil says that if it had not been for a "hidden mechanism" in the late 1970s and '80s when many tenant farmers sold land to small owners and went into other jobs, many more than 1m would have been affected by the new law.

Critics say the new law, by encouraging fewer and bigger land owners whose interest is to grow for export, will mean less emphasis on growing basic foodstuffs such as rice and wheat. Egypt already spends $3bn a year on imports of food. The new law, its critics say, will simply increase the size of this bill.

Worse still, by turning tenant farmers into landless labourers the new law threatens the social fabric of rural life in Egypt, according to Mr Abdel-Fadil and other critics. There is no peace for Egypt's farmers.

Distorted by bureaucratic meddling: the agricultural sector is dogged by problems ranging from lack of marketing to rising transport costs Ashley Ashwood

The state goes on the offensive

Continued from page 14

A leading Cairo businessman recounts being present at one, half-hour, senior editorial meeting, devoted entirely to exactly where to position the photograph of the president on the front page.

Even so, journalists strongly resisted a draconian press law in 1995, resulting in a modified law (Law 96) being introduced in 1996. This nevertheless adopts a penal approach to the media, and in particular lays out stiff penalties for "insult" – a legally vague catch-all littered throughout the law.

This was compounded this year by an amendment to company law giving the cabinet authority to restrict access by media companies to what is is described as "remote control" technology, presumably covering everything from satellites to the internet.

Even where amendments incorporate improvements – such as banning advertising under the guise of copy – these are paper gains. "The law won't stop it unless there is an institution to monitor it," says Gasser Abdel Razik, director of the Centre for Human Rights Legal Aid.

He adds that the company law amendment "is there to make sure that all the concessions and conditions the government wants to create for investors will still mean they have control of information. For them it's a national security issue."

Kamal el-Ganzouri, the Prime Minister, insists his administration is not afraid of a critical press. "I raise my cap to any criticism," he says. "But insult is not opinion, and nor is the blackmail of businessmen. We are trying to set the correct limits to insult."

Nevertheless, the government is showing signs of concern that economic liberalisation implies loss of control. It is not alone in the Middle East in wanting to keep control of new media technology.

But nor is it a sign of confidence to muzzle a press that half the population cannot read and most of the other half does not want to read. Rather, it reflects the outdated mentality symbolised by that eyesore on the Nile, the Television Building.

PROFILE Sekem

Making a profit from nature

Nestling as a man-made oasis in the otherwise empty Eastern Desert north of Cairo, a burst of foliage and a slight breeze rustling a meadow of wild flowers are the signs that both determination and a welter of proof can allow nature to flourish and make a profit too.

From modest beginnings, Sekem stands out as an agro-industry which flies in the face of Egypt's rush towards environmental disaster, overcropping and the routine exploitation of farmers.

Established in 1977 on 70 acres of former desert, Sekem is an experiment in organic farming whose methods have now spread throughout the country and become a profitable export business.

"It started with a holistic approach to contribute to Egyptian development," says Helmi Abouleish, son of Sekem's founder Ibrahim Abouleish, who started the farm as a E£300,000 investment.

"We wanted to ensure that farmers, buyers, traders and consumers could co-operate in a way that could get a good price," he says.

"Farmers are the most misused, and they don't trust anybody. So to bring a change we have promoted organic farming as a method and sought to have co-operation between farmers and the export market."

In the late 1980s Egypt was using 3kgs of pesticides an acre as part of the move towards maximising output in a country where only three per cent of the land area is arable. But since then there has been an 80 per cent drop in pesticide use.

In the meantime, Sekem contracted with 350 farmers in 150 locations throughout Egypt to grow crops organically. The company then bought the harvest at pre-agreed prices generally favourable to the farmers.

"Agriculture doesn't make a profit," says Mr Abouleish. "The only way we can give the farmer a justified price is by adding value. In fresh produce there is not much added value.

"Even so, the raw material price becomes less and less important the more you add value. This way we have been able to pay the farmer the higher, justified price for the raw material. The export market initially developed faster than the local market. But this has now contracted to 40 per cent of output compared with 80 per cent in 1985."

Sekem's turnover has now reached E£50m, of which E£20m comes from exports. It has opened eight shops in Cairo and other cities to sell its products with a turnover of E£3m last year. Five more shops are planned.

After finding a European partner in 1984 Sekem was able to become a leading supplier of organic vegetables to European supermarket chains. European consumption of organic products has risen from 0.7 per cent of total food consumption in 1992 to 13 per cent. "We can't meet the demand," Mr Abouleish says.

Sekem also exports 400 tonnes a year of herbs to health food shops, earning it E£3.4m last year. In its bid to maximise the added value, it has now developed a line of organic textiles made entirely from organically grown cotton.

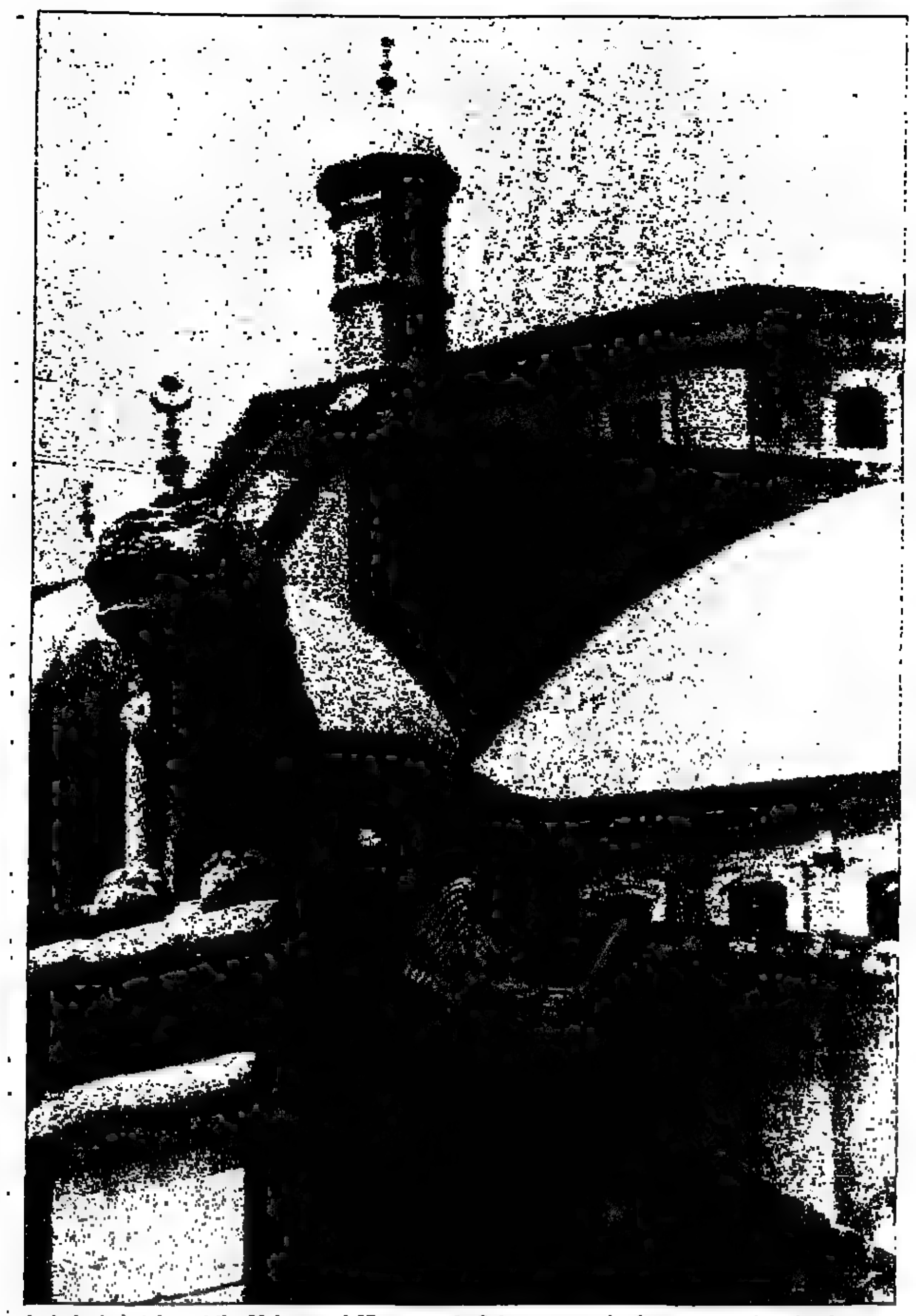
The label, Organic Cotton People, is soon to be stocked by the British supermarket chain J Sainsbury as well as shops in Germany and elsewhere. The line last year earned the company E£6m.

Mr Abouleish believes the commercial success, which is expected to earn Sekem a E£2.5m profit this year, lies in having retained the original goals. Cultural life at the Sekem farm centres on a school which is open to the poorly served children of the area as well as employees' families.

"We believe that the object of human beings on earth is to develop and contribute to the development of other human beings," he says.

"The more happy people are the more they will contribute. Economic activities should in the end only be judged on this basis. We tried to base the whole initiative on Islam from the beginning – an economy of love, opposed to competition and capitalism."

Mark Huband



A student sketches at the Mohammed Ali mosque in Cairo: proposed reforms are designed to lure bright pupils back towards vocational subjects such as commerce, agriculture and industry

TRAINING • by Simon Targett

Initiative is long overdue

Bold plans for new vocational schools may come too late for the private sector

The government is planning a generation of new-style "comprehensive" schools to break down the barrier between academic and vocational education that has survived since the days of British colonial rule, according to Hussein Kamel Bahaa El Din, the education minister.

The proposed reform is calculated to lure bright pupils back towards vocational subjects – including commerce, agriculture and industry. It is to be formally unveiled later this year, when Suzanne Mubarak, Egypt's first lady and a noted education campaigner, chairs the first national conference on reforming secondary schools.

But it may come too late for the private sector – and especially the hotel chains, which have been growing increasingly restless over the poor quality of the students emerging from Egypt's schools and universities.

Hilton, the US hotel group, is shortly to unveil plans for a multi-million dollar training academy, based in Alexandria, Egypt's ancient Mediterranean port.

Today Egypt's brightest pupils are, once they reach 14, steered towards general secondary schools, while the rest are channelled into the technical schools, creating an elitist system. In 1995-1996, 817,387 pupils were studying at 1,396 general schools, but 1.8m squeezed into nearly 1,600 less prestigious technical schools.

It has also created a lopsided labour market, with too many top pupils opting for a medical career – which requires academic training at a general secondary school – and too few opting for a career in the hotel and tourism industry, which is central to Egypt's plans to become a modern economy.

Dr Bahaa El Din says the government has "an idea there should be a comprehensive school" which would counter "the official view that technical education is a second rate education". He says the official view militates against progress in the technical subjects. Under a comprehensive school system, "academic and practical subjects would be taught in the same place – so there would be no discrimination".

If, and when, the comprehensive schools evolve, they could help restore the private sector's confidence in Egypt's education system. There are widespread, and growing, fears that Egypt is not providing the pool of skilled labour required to sustain globally competitive companies.

In 1994, the World Bank reported that private firms were concerned the shortage of skilled technicians was "a severe obstacle" to successful business operations. Last year, the European Commission in Cairo heard evidence that private sector companies were still hampered by the shortcomings of the education system.

In a report for the commission, Hakim Husseim, of Accor, the hotel group, presented a litany of complaints, all pointing to "the gaps between the education and industry requirements".

The quality of the education at the specialist hotel schools, institutes and colleges was "inappropriate"; the facilities were poor, lacking "proper laboratory kitchens, demo restaurants, language and computer laboratories, and libraries"; and the instructors lacked practical experience of the hotel industry.

For an industry which, according to the Egyptian Federation of Tourist Chambers, is projected to require 840,000 employees by 2010 – compared to 116,705 in 1996 – this was a worrying conclusion. Mr Husseim's answer was that the problems would "have to be solved through the industry's initiatives".

This is precisely what Hilton is planning to do. Two years ago, Ayman Madkour, training manager at the Nile Hilton, founded an informal group of like-minded managers to lobby for changes to the curriculum: the hotel's human resources, training and personnel association.

"We wanted to see a much more practical course – one geared to the changing needs of the Egyptian tourist industry," explains Mr Madkour, a business graduate whose American accent comes from his time at the American University in Cairo, the country's premier institution. "Egyptian tourism has diversified," he says, "so it's no longer just the pyramids, the sphinx and the phaoronic monuments."

Walking in the Sinai desert with the Bedouin tribesmen, diving off the Red Sea coast, flying to a business conference in a plush hotel by the Nile: this is the new face of Egyptian tourism and, says Mr Madkour, "it has brought a customer who expects a world class service".

But this is the problem. "Egypt has the hardware, the fabulous hotels with top of the range facilities," says Mr Madkour, "but it does not have the software, the staff with the languages and the cultural understanding to meet the expectations fo visitors".

To encourage the colleges to reform, the association compiled a list of curriculum changes, and sent it to the head of the tourism department at Helwan University, the chief recruiting ground for the top hotel chains.

It began a dialogue, but effective change has not happened, and with such a major stake in Egypt – 10 hotels, and five more under construction – Hilton cannot afford to wait any longer.

So it is trying a different tack: establishing a specialist training academy. The idea is to offer international class courses, possibly with degrees franchised from a US or European institution, and possibly with instructors recruited from around the world.

It is a bold step, but, given the state of Egypt's education system, it is viewed as the fastest way the US chain can get staff who are, as Mr Madkour puts it, "high quality, customer-focused and Hiltonised".

PROFILE Ritsec

An oasis of excellence

Only a small brass plate on the entrance wall gives any inkling that the former royal residence along Hassan Sabry Street in Zamalek is the centre of Egypt's drive to become a world leader in information technology.

Located in one of Cairo's most prosperous districts, and set among gentle palm trees, the mansion has nostalgic charm about it. Yet, today, it is the headquarters of the Regional Information Technology and Software Engineering Center – or Ritsec. In a land overrun by illiteracy, Ritsec is an oasis of excellence, given government backing and staffed by some of Egypt's brightest whizz kids.

As a senior British Council officer in the Cairo branch says: "Ritsec is very un-Egyptian, but it shows what can be done."

Hisham El Sherif, who trained at the Massachusetts Institute of Technology, runs Ritsec, which was founded six years ago with a mission to, as he puts it, "build an IT industry in Egypt and the Arab region, and support social and economic development".

The task is huge. Dr Sherif says Egyptians spend just $5 per person on IT, compared with nearly $1,000 in Switzerland, the highest spending country.

"But if expenditure is still modest," says Dr Sherif, "the rate of growth is high – easily double digit – and that's the important thing."

The government estimates annual growth is 30 per cent, much higher than the average 22-25 per cent in other Middle East countries. Another indicator is the rise of street corner cybercafes. The first was launched in 1996, and today 35,000 people use the internet across the country.

Ritsec's, aiming to capitalise on this enthusiasm, has a bold plan for underpinning a world class IT industry and, at the same time, boosting opportunities for those Dr Sherif calls the "have-nots" who have been ill-served by Egypt's education system.

This starts with the infants. Next month, Ritsec, with the Egyptian government, is launching 40 computer centres for children aged 6-15, especially in the rural heartland of Upper Egypt.

By the end of the century, the plan is to have 1,000 centres dotted around the country.

"We want to reach the grass roots," explains Heba Ramzy, a graduate of the London School of Economics, who co-ordinates the children's programme.

The centres, typically fitted out with eight computers, 100 CD Roms and the internet, will "expose children to new ways of thinking and show them what's going on around the world", says Ms Ramzy. A new Ritsec-designed web site for children, launched last year with the backing of Suzanne Murabarak, Egypt's first lady, will be one of the main features of the regional centres.

Further up the age range, Ritsec is targeting school pupils and university students with distance-learning education, and there are embryonic plans for a "virtual school" and a "global campus".

Dr Sherif says Egyptians will, in two years' time, be able to visit "the modern utopian school" and take "the best courses from the best teachers from all over the world".

Undergraduates can already enrol for University of Illinois web-based courses, through the "global campus" initiative, but Dr Sherif, who exudes national ambition, rattles off other US universities in Ritsec's sights: "MIT, Harvard, Berkeley." This could have a big impact on Egypt's education system, which labours under a narrow, strictly censored curriculum.

Ritsec also caters for Egypt's elite, through two specialist postgraduate academies. One, the Information Technology Institute, run by a former general in charge of the Egyptian army's electronic warfare strategy, is only loosely linked to Ritsec.

"This selects the best students from the universities," says Dr Sherif, "and makes them world class."

On the elite nine-month programme – which costs E£16,000 per person – students, usually in their early 20s, are turned not only into accomplished computer programmers but also into effective proselytisers for the IT industry.

The other academy, with a confusingly similar title, is the Regional Information Technology Institute, which is housed in the old servants' quarters in the grounds of the Ritsec mansion.

The idea is to give managers and executives advanced professional training in business administration, computer science, and banking and finance.

Top companies, with offices in the Middle East, have sent their employees to RITI, including Proctor and Gamble, Citibank and Shell. So too have government agencies, including those in Bahrain, Yemen and even Uzbekistan.

RITI is the centrepiece of Ritsec's most ambitious plan to boost IT in Egypt: a "knowledge valley" modelled on California's silicon valley. A huge site has been allocated in New Cairo, and next year RITI moves there, to a $5m purpose-built complex.

This will be followed by 11 other specialist institutes, which will turn Cairo into Egypt's, and the Arab world's, "professional hub". The total cost, estimated at $35m, makes the "knowledge valley" project an extraordinary undertaking. But, as Dr Sherif says, hinting at Egypt's ambition to join the first world: "We need qualified, world class, professional people."

Simon Targett

PROFILE Adult literacy training

A beacon of literary light

It is a far cry from the great library of Alexandria which ancient travellers listed among the seven wonders of the world, but the row of books at the back of the general store in Elgabalaw is a beacon of hope for the local rural community.

The small village, within the Qena governorate, lies far from the tourist trail, north of Luxor and beyond the ring of security check points which have surrounded the pharaonic capital since the massacre of 58 foreign sightseers last November.

Here, in Egypt's Islamic heartland, illiteracy is rife, and the government knows that if the country is to become substantially literate by 2001 – as is planned – it must take the fight to such rural governorates in Upper Egypt.

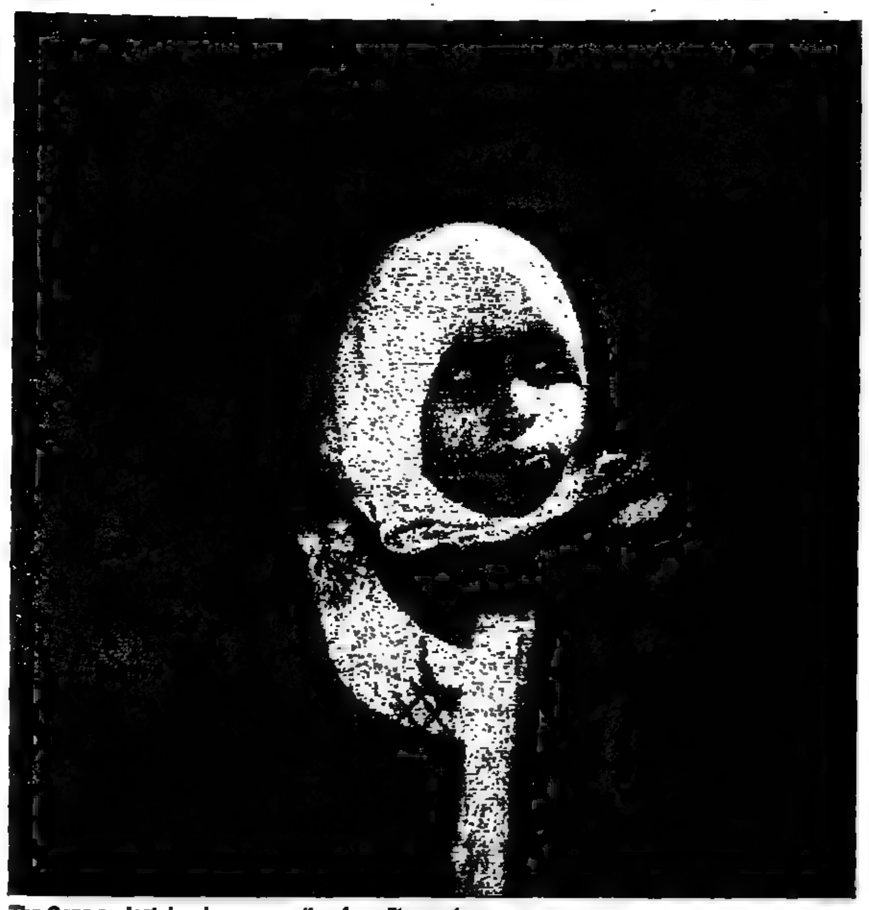
This is why it has established an adult literacy training project – with UK government backing – to eradicate illiteracy among local women from the villages around Qena.

Just 47 per cent of Upper Egypt's population is literate, according to a new study on poverty by the Ford Foundation, but the rate of illiteracy is highest among girls and women.

Across the country, it is estimated that, at any one time, about 600,000 girls aged 6-10 are not given the chance of schooling by their parents, with more than half (56 per cent) from Upper Egypt.

Safaa Shaban, a woman in her mid-20s, runs the Qena project and pays regular visits to Elgabalaw, where local women gather for a literacy lesson in the house of the person who owns the store library.

It is voluntary, but there is a huge appetite for learning, because it is seen as a tool of individual empowerment. "To me," says Fatma Ahmed Asran, 41, "it means being able to read the instructions on a medicine bottle or understanding a private letter without having to show it to a neighbour."



The Qena project: local women gather for a literacy lesson — Simon Targett

Until the project began, Mrs Asran had never been taught to read or write because, like her fellow classmates, she had never been to school. "We blame our parents," she says, "and that is why we send our children to school – because we don't to be blamed for depriving them of an education."

This is the thinking behind the adult literacy project – reach the parents today and you reach the children who are the workforce of tomorrow.

It seems to be working. Mrs Asran, a mother of seven, is ambitious for her children. "I want my 15-year old daughter to be a doctor," she says.

All the other mothers have equally high hopes for their children, and expect them to work in the classroom rather than in the field. "Even though we are not educated," says Nagah Said Hosen, "we try to help the children do their homework because we want them to be successful."

The problem is, even state schools charge modest fees, and so boys tend to be sent before girls.

But the women of Elgabalaw have an answer. They have formed an association, pool any money from working overtime and distribute the funds to those needing to pay school fees or buy school uniforms.

After the course, the women are encouraged to stay in touch with the project, so they do not, as Ms Shaban says, "forget everything they learn because there is no connection between reading and writing and their everyday life".

Many do stay in touch, using the library facilities, and the success of this and similar projects has meant the literacy rate in Upper Egypt, though still low, has seen the biggest improvement in the country – 31 per cent in the 10 years to 1996, compared with 25 per cent in Lower Egypt. Not all do, however, and that is Egypt's challenge for tomorrow.

Simon Targett

EDUCATION • by Simon Targett

A quiet revolution in the classroom

The government is taking serious steps to boost the quality and reach of schooling

William Zaki, a school inspector, signs the register at the gateway of Orman experimental language school in Cairo. He walks in, and smiles at children in smart school uniforms, playing under the watchful eye of a teacher – some debating the merits, or otherwise, of Margaret Thatcher.

A little later, when he enters Tahrir primary school, he is no longer smiling. Tahrir, in Cairo's Imbaba district, is not far from Orman, but it could be another country: no registration desk, no supervised play, only platoons of unkempt tearaways rushing through the dilapidated buildings.

Orman is the vision of Egypt's future, where children are well taught in pleasant, ordered surroundings. Tahrir is the vision of Egypt's past – and a reminder that the education reform programme begun six years ago still has far to go.

But the Egyptian government has taken some substantial steps towards overhauling the education system. It has, for a start, undertaken a spending review, giving education a significant share of the government budget.

According to a recent five year review for 1991-1996 – which was supported by Unesco (United Nations Educational, Scientific and Cultural Organisation) – Egypt has raised the proportion of national expenditure on education from 12 to 19 per cent.

Most of the extra funding has been swallowed by building new schools, with the number of schools rising from 25,616 in 1992 to 30,570 in 1997. That cost E£9bn, and meant, as the education ministry makes clear, that more schools were built in the early '90s than in the previous 100 years.

The effect, as intended, has been a drop in the rate of illiteracy, which has fallen from 49.6 per cent to, according to the latest estimation, 37.8 per cent.

This is a significant achievement, but with more than a third of Egyptians still unable to read and write, the government must, as the Unesco report advises, "keep up the momentum [of the reform] in the coming years".

Hussein Kamel Bahaa El Din, one of the country's top medical professors before he turned to politics, knows this. He has ordered a fresh building programme, and plans 10,000 new schools.

He has also revived the bold scheme to "end illiteracy within three or four years" by recruiting 150,000 unemployed graduates who would each teach 30 illiterate people – although he has still to secure the E£500m fund.

But the government, says Dr Bahaa El Din, is, after years of addressing "the quantitative problem", starting to concentrate on "the quality problem".

The problem is daunting. This much is clear from the rising number of parents who are paying for their children to have private lessons to supplement the meagre education they receive in the state-funded schools.

The problem is exacerbated by unscrupulous teachers who, to boost their modest salaries, threaten pupils with low marks if they do not sign up for private classes after school.

Dr Bahaa El Din rails against this educational "black market", calling it "a new Aids for education because it destroys the education system from within".

To combat this disease, the government has embarked on a two-pronged strategy to improve the curriculum and raise the standards of teachers.

Dr Bahaa El Din wants to see more emphasis on what he calls "the futuristic subjects": mathematics, science and computer studies. The government has also prepared a list of 16 "new paradigms in the curriculum" which includes "democratic upbringing", tourism, gender equity and even "traffic regulations".

Another topic listed is "facing terrorism and extremism", which serves as a stern warning that, having rooted out 2,000 Islamic "fundamentalists" from Egypt's classrooms, the secular government is keen to keep religion out of the curriculum.

But the government is interested in the manner, as much as the subject, of study. So, as part of its five year plan to 2002, the government has earmarked £1.6bn to equip all schools with computer technology, with a short-term goal of increasing the number of schools with information technology from 6,000 to 11,500 by the end of this year.

It has also launched a campaign to rid Egypt's schools of rote learning. "In the past, graduates of our education system were supposed to be obedient, disciplined, and implement orders," says Dr Bahaa El Din. "They were not asked to be ingenious, creative or to think for themselves."

Now, however, the government wants a new breed of Egyptian "with vision".

This means recruiting a new breed of teacher who is not so much a "lecturer and disciplinarian" as "an orchestra director who is able to release the potential of the players".

To recruit such teachers, the government has enhanced the average pay package, although it is still not hard to find teachers moonlighting as waiters or taxi-drivers. In five years, teachers' salaries have nearly doubled, and teachers take home around E£200 a month, according to the minister. Teachers can earn an extra E£300 for taking formal after-school lessons run under the auspices of the education ministry.

Alongside this measure, the government has begun the long haul of retraining the country's 850,000 teachers, giving them incentives to learn a style of teaching that, as Dr Bahaa El Din puts it, "emphasises democracy, diversity, dialogue and disagreement".

A series of national training centres have been established and, through video conferencing, the government put 87,000 teachers through training sessions last year.

Growing numbers of teachers are being sent abroad to look at other education systems.

This strategy to reform the curriculum and retrain teachers has won the backing of the World Bank and European Union, which last month approved a $200m "education enhancement" programme which focuses on teacher training.

There remains some scepticism about whether or not the Egyptian government can reform the curriculum and the classroom methods of teachers. "This represents a threat to teachers' traditional authority in the classroom," says Khalid Ikram, director of the World Bank's Egypt office, "so don't hold your breath for this change to occur."

But, in pursuit of international backing, Dr Bahaa El Din has underlined his government's belief that education remains "a national priority". It is, he says, "the guarantee for Egypt's active participation in the 21st century and the medium for providing Egypt with the desirable status it deserves".

Gridlock of bureaucratic resistance

Continued from page 1

The World Bank estimates, for instance, that it currently takes an average of seven years to resolve a commercial dispute, at an average cost of 7.5 per cent of the final settlement, and that by 2000 each judge will have about 8,000 such cases pending.

With the exception of the foreign ministry, the best government departments depend on exiguous cadres of highly-motivated, well-qualified reformers. These reformers are overworking in parallel to, and often against, a large and unproductive bureaucracy which is resistent to the idea that surrendering turf will expand the overall turf area.

Like Egypt's pyramid political structure itself, in which all power emanates from a presidency whose incumbents emerge from the armed forces, what this means is that reform is not vested in institutions but dependent on individuals.

Mauro Mecagni, resident representative of the IMF in Egypt, gives high marks to the commitment and cohesion of the tight-knit group of reformers assembled by Mr Ganzouri, but points to a recent Fund study of 36 developing countries which highlights "limited implementation capacity" as the main impediment to structural reform.

"The back-offices behind this small group of policy-makers are far too small," he says. "The only way the reform equation hangs together is with massive investment in human resources and education."

The government acknowledges the scale of the problem. Youssef Boutros-Ghali, economy minister, says that the reform process is running out of "snap-your-fingers" solutions.

Opening up pensions and insurance to the private sector and selling off one at least of the four state-owned banks would be a remaining one.

Deregulation, of "anything from stamps and permits to getting caught between different government departments", will also continue to push up productivity. But "what we need is to develop the institutions that develop economic decisions," Mr Boutros-Ghali says. Egypt, he argues, arrived at reform by its own volition but without an "institutionalised process". What it now needs is "repeatability . . . otherwise it's a fluke".

"We need to push exports, yes, and we need to build savings. But I want to spend lavishly on the institutions of governance. There's no ribbon to cut, and the results are only incremental, but this is what we need. Every pound you spend on this creates ultimately hundreds of pounds in the rest of the economy."

Mr Ganzouri admits that "minimal efficiency will take between four and five years to achieve". But only, as he puts it, if "we can get out of the Old Valley" – enabling Egyptians to live and work in reclaimed land of the "New Valley" in the south-eastern desert, unclogging the Nile Valley and Delta, the 3 per cent of Egypt into which they are now crammed.

Some critics of such "grands projets" mutter about "Pharaonic" ambitions. Others see a ribbon-cutting distraction from the more vital but prosaic tasks of building up institutions and the education system, or building up accountability by liberalising Egypt's authoritarian politics.

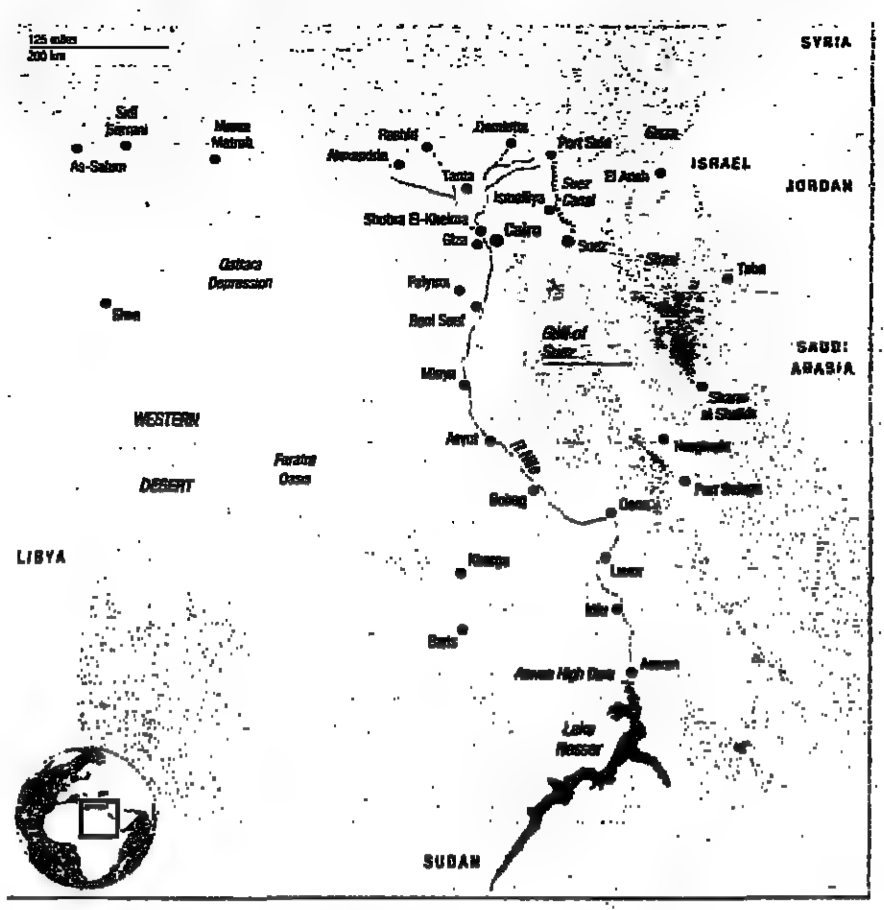
From the New Valley to the new ports, these projects are necessary. What they do show, however, is that – whatever the merits of gradualism – a system with few institutions and limited trained talent to deploy can, as one reformer puts it, "only keep so many balls up in the air at one time".

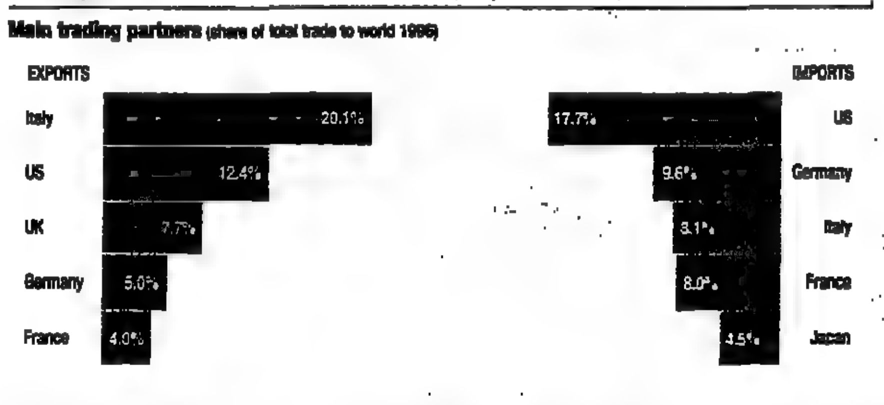
- Area: 997,739 sq km
- Population: 59.27m (1996 census)
- Language: Arabic
- Currency: Egyptian pound (E£)
- Exchange rate: 1997 average $1 = E£3.3966; May 7 1998 $1 = E£3.4178
- Main towns and population (1996)

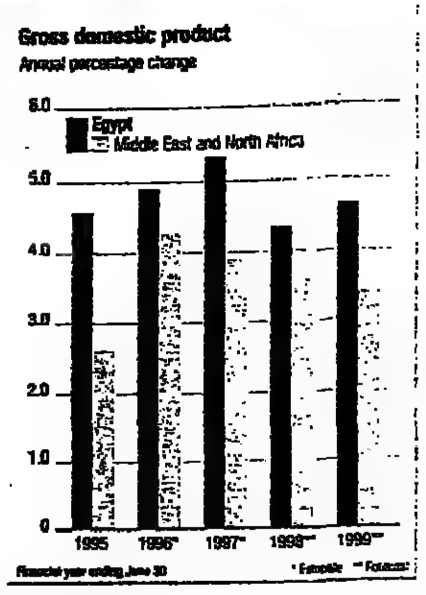
Cairo (capital)	6,789,000
Alexandria	3,328,000
Port Said	469,000
Suez	418,000

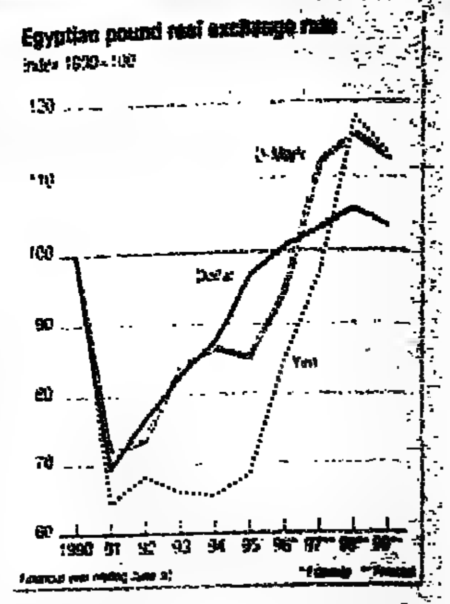
Constitution

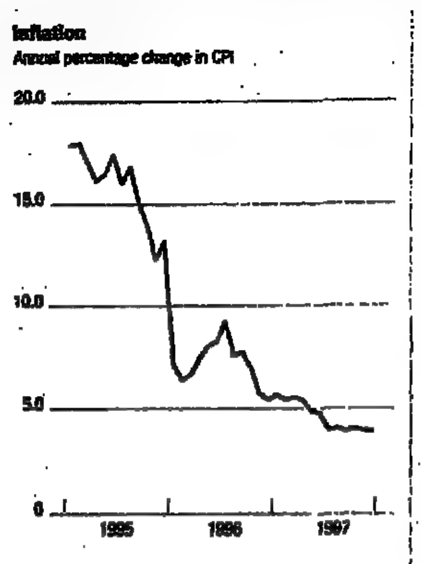
- Official name: Arab Republic of Egypt
- Legal system: Based on the constitution of 1971
- National legislature: Unicameral Majlis al-Shaab (People's Assembly) of 444 directly elected members and ten additional members nominated by the president. Deputies serve a five-year term. All candidates contesting the elections now run individually. The president may dissolve the assembly only if he gains the support of the people in a referendum. The National Democratic Party has a decisive majority in the assembly
- Electoral system: Universal direct suffrage
- National elections: November 29 1995, next elections due by October 1999 (presidential) and November 2000 (legislative)
- Head of state: President, nominated by two-thirds majority of the assembly and elected by referendum. Currently Hosni Mubarak, re-elected for a third six-year term in October 1993
- National government: Council of Ministers headed by the prime minister. The president is responsible for appointing and dismissing all ministers. The assembly can require a minister to resign if it passes a motion of no confidence in him. Should a motion of no confidence in the prime minister be passed against the president's wishes the matter may be put to a referendum. Last cabinet reshuffle: July 8 1997
- Main political parties: National Democratic Party (NDP), the ruling party; Socialist Labour Party (SLP); Socialist Liberal Party; New Wafd Party; National Progressive Unionist Party; Democratic Nasserist Party

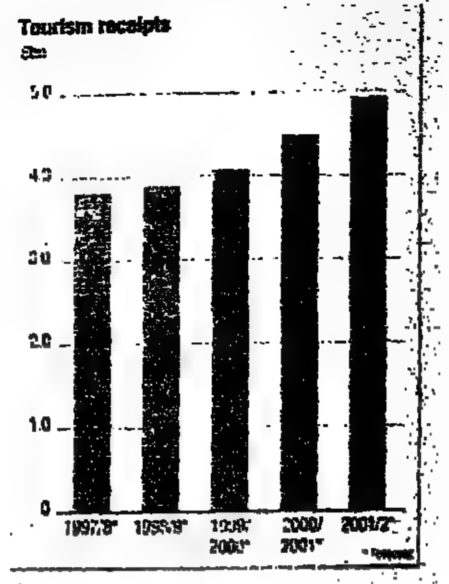


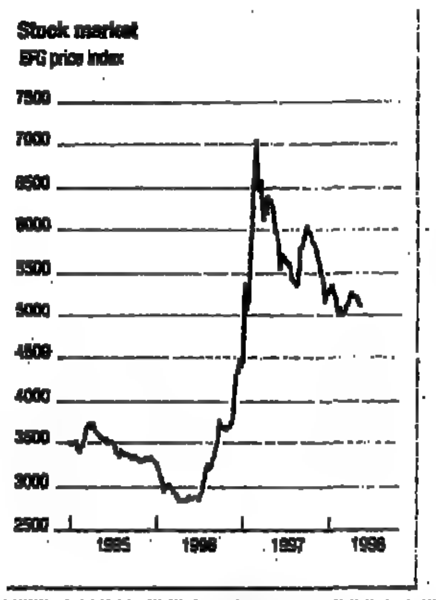


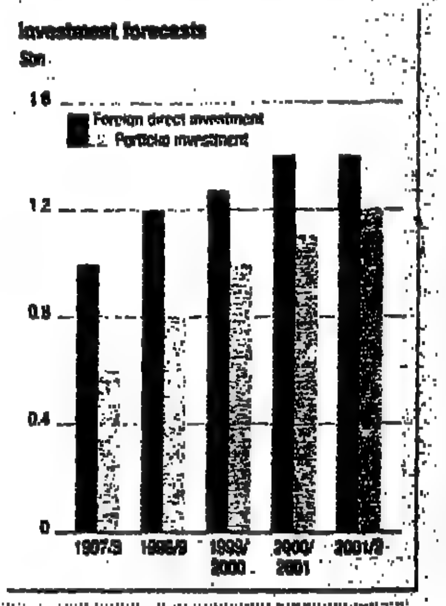












Source: Datastream/ICV; EIU; IMF

Canada

Big business senses a northern renaissance. Politically, too, the country is climbing back to normalcy. **Edward Alden** reports

Top dog in the G7 performance race

For most Canadians, 1998 has been a long time coming. After one of the most wrenching decades in the country's history, Canada is again looking to the future with optimism.

The International Monetary Fund and the Organisation for Economic Co-operation and Development are predicting Canada's economy will outperform every other country in the G7 this year. For the first time in 29 years, the federal government and most provinces are turning in balanced budgets and starting to talk about tax cuts or increased spending on social programmes.

Canada is playing a stronger international role than it has since the days of Lester Pearson in the 1960s, particularly in pressing for regional trade agreements. Even the constant threat of Quebec's separation from the federation seems less imminent now the provinces's economy has strengthened and the federalist cause has found a new champion in Jean Charest.

Last month the governor of the Bank of Canada, not usually noted for his optimism, declared that the economy "is better now in Canada than at any time since the 1960s. You can't overstate how much [the fundamentals] have improved".

Finance minister Paul Martin believes that Canada, despite its current 8.5 per cent unemployment rate, can emulate the US by driving unemployment below 5 per cent without triggering inflation. As little as two years ago, such a claim would have been greeted with polite sniggers.

Some of the current glow may reflect the cycles of both economics and politics. Canada's economy fell further than any other industrialised country in the early 1990s, a recession that some argue was needed to wring the last remnants of inflation out of the economy, and others say was needlessly precipitated by excessive interest rate hikes. The Bank of Canada's short-term interest rate hit more than 14 per cent in 1990, the dollar reached US89 cents in 1991 and unemployment climbed to 12 per cent in 1992.

Having fallen so far, Canada is now enjoying a steeper climb out of recession than other industrialised economies. "What we're going through is the virtuous side of that difficult period," said Bank of Canada governor Gordon Thiessen. Low and stable inflation rates have allowed interest rates to drop, with Canada's short-term rates now averaging about 50 basis points below US rates. And a low dollar, at roughly US70 cents, has triggered an export boom.

Politically the early-1990s was also a turbulent time. Canada's oldest political party, the Progressive Conservative Party, was all but extinguished in the 1993 election. Two regional parties, the fiscally and socially conservative Reform party in the west and the separatist Bloc Québécois, became the major opposition parties.

But in politics too the country has been climbing its way back to normalcy. The Liberal government of prime minister Jean Chrétien used its overwhelming majority in 1993 to force through spending restraints that had been needed for 25 years. Mr Chrétien – whose folksy demeanour plays better in English Canada than in his native Quebec – has remained popular, despite making budget cuts that reduced government spending to early-1960s levels. By 2000, Canada's programme spending as a percentage of GDP will be at its lowest level in 50 years.

From a budget deficit of C$45.7bn in 1993-94, about 5.4 per cent of GDP, the government this year turned in Canada's first balanced budget in 29 years. Current predictions are for surpluses as far as the eye can see, and Canadians are in the throes of their most pleasant debate in years: how to spend the so-called "fiscal dividend".

The government's current plan is a 50-50 split, with 50 per cent of any surplus to go to new spending and 50 per cent on tax relief and debt reduction. Most Canadians say they want money restored for health care and education, and this will likely be the government's top priority. The last budget also cut taxes for the 83 per cent of Canadians making less than C$50,000 a year and Mr Martin is promising further tax relief soon. Canada's personal income taxes are third highest in the G7, after France and Germany.

The country's total debt level remains high, second only to Italy in the G7. But the debt-to-GDP ratio is expected to drop from 72 per cent in 1995-96 to 63 per cent by 1999-2000, which would be the steepest decline of any G7 country. Mr Martin has established a C$3bn "contingency fund" which will almost certainly go to debt repayment this year.

A rapid rise in interest rates would seriously upset these calculations, but the government's projections to date have consistently been conservative.

While the Liberals handily won a second mandate last year, the Conservatives also recovered to 20 seats and Reform became the official opposition with 59 seats. The left-of-centre New Democratic Party put in its strongest showing in years, winning 21 seats. Reform, which had its origins in the right-wing populism of Canada's prairie provinces, has been gradually moving towards the political centre in an effort to attract more mainstream voters.

A stronger economy and a more stable, confident government in Ottawa has allowed Canada to look outwards more than it has since the country played a critical role in building the post-war international institutions. The country has taken the lead in negotiating new trade ties with Latin America, and is urging new links between Europe and North America.

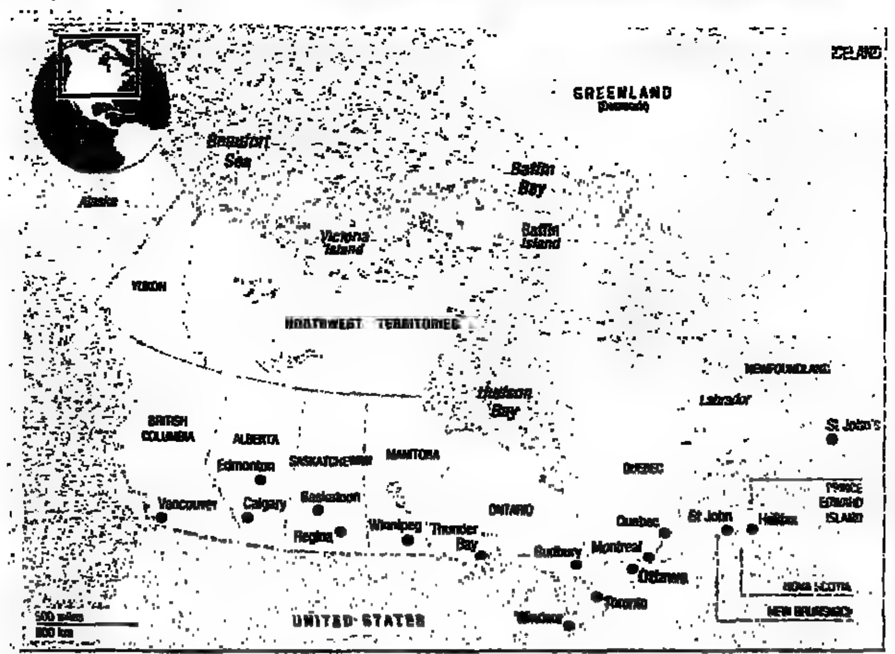
The greatest danger for Canada remains the burden of its history and geography, the pull of regional and linguistic antagonisms that have long torn at the fabric of Canadian unity. In the 1997 election, for instance, support for political parties fragmented along provincial lines. The Liberals took 101 of the 103 seats in Canada's largest and wealthiest province, Ontario, and won a handful in Quebec, the Atlantic provinces and British Columbia. The Reform party won most of the seats in western Canada and none elsewhere, while the Bloc continued to dominate Quebec. Atlantic Canada, the nation's poorest region, dropped its usual loyalty to the governing Liberals and voted for NDP candidates which promised to restore cuts in government spending that have particularly hurt the unemployed and those on social assistance.

The provinces rightly point out, none more forcefully than Quebec, that Ottawa's balanced budget was achieved in good measure by cutting transfer payments to the provinces. As such, the always tenuous links between Ottawa and the far-flung regions have become even weaker.

The regional tensions are, of course, most apparent in Quebec, where a party committed to the province's separation from Canada continues to hold power. In a referendum on sovereignty held in 1995, the separatists came within a handful of votes of leading Quebec out of confederation. While the country has become almost inured to the threat of separation, there is no doubt that, in the short-run at least, it would be an economic and political disaster. A new saviour has emerged in the form of former Tory leader Jean Charest, who has taken over the Quebec Liberal party. Quebec, however, is littered with the ashes of more than one federalist saviour.

But in the spring of 1998, most Canadians are not thinking of the problems that may loom ahead. Housing prices are up, jobs are being created, and the country's leading business group is trumpeting a "northern renaissance." After a rather grim decade, no one wants to rain on that parade.

In this Survey



- Area: 9,215,430 sq km
- Population: 29.96 million (July 1996)
- Languages: English, French
- Currency: Canadian dollar (C$)
- Exchange rate: 1997 av $1 = C$1.3849; May 8 1998 $1 = C$1.4330
- Main towns and population (June 1996)

Ottawa (capital)	
Toronto	4,410,000
Montreal	3,365,000
Vancouver	1,882,000
Ottawa-Hull	1,039,000
Calgary	853,000
Edmonton	840,000
Quebec	[illegible]
Winnipeg	680,000
Hamilton	[illegible]

Constitution

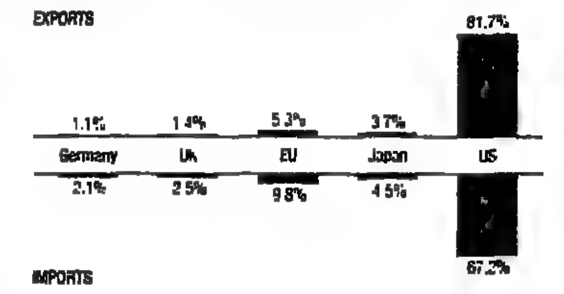
- Official name: Canada
- Form of state: Constitutional monarchy
- Head of state: Queen Elizabeth II. The monarch's functions are carried out by her representative in Canada, the governor-general, currently Romeo LeBlanc, appointed on the advice of the prime minister
- National legislature: Bicameral federal parliament; House of Commons of 301 members elected from individual constituencies; Senate of 112 members appointed by the prime minister. The Senate has the power to delay legislation
- Provincial legislatures: Unicameral Legislative Assembly of varying size in each of the ten provinces. The executive is nominally headed by a lieutenant-governor appointed by the Crown, but he has very little effective power
- Electoral system: Universal direct suffrage for all citizens over the age of 18
- National elections: June 2 1997; next election before June 2002
- National government: Cabinet headed by prime minister, drawn almost invariably from the House of Commons. The Liberal government was re-elected for second term in June 1997

Economic summary

	1996	1997
Total GDP ($ billion)	601.8	618.3
Real GDP growth (annual percentage change)	1.2	3.8
GDP per head ($)	[illegible]	20,500
Inflation (annual percentage change in CPI)	1.6	[illegible]
Average hourly earnings (annual percentage change)	3.2	0.9
Industrial production (annual % change)	1.5	4.9
Unemployment rate (percentage of workforce)	9.7	9.2
Money supply, M2 (annual percentage change)	3.1	-0.4
Foreign exchange reserves ($ billion)	20.5	18.6
Retail sales volume (annual percentage change)	0.6	5.3
Unit labour costs (annual percentage change)	1.3	0.0
Current account balance ($ billion)	2.7	-13.2
Merchandise exports ($ billion)	205.8	217.8
Merchandise exports ($ billion)	175.6	200.9
Trade balance ($ billion)	30.0	16.9
Prime rate (%)[1]	4.75	6.0
Three-month interest rate (%)[1]	3.13	4.75
10-year government bond yield (%)[1]	6.4	5.81

[1] End period

Main trading partners (share of total trade to world 1997)



Sources: Canadian government, EIU, IMF, Datastream/ICV

ECONOMY • by Scott Morrison

Fit enough to avoid nasty case of 'Asian flu'

Fundamentals are good but weakness of currency remains a worry

The Canadian economy has undergone a dramatic transformation since the early 1990s. Hobbled by painful corporate restructuring and tight monetary conditions intended to tame inflation, the economy lurched out of the 1990-92 recession primarily on the strength of exports to the US. The outlook has improved significantly in the past two years, with a resurgence of domestic demand, strong business investment and low interest rates. Canada's economy expanded 3.8 per cent in 1997 and is poised to enter a period of sustainable non-inflationary growth and falling unemployment amid a background of improving fiscal fundamentals.

While economists have slightly reduced estimates in the wake of the Asian crisis, the IMF still expects Canada to lead G7 nations with 3.2 per cent growth this year and 2.8 per cent in 1999.

The current strength of the economy has softened the impact of Asia's economic crisis, which has led to lower prices for natural resource exports. Business investment over the past four years has surged, particularly for machinery and equipment, and among energy groups developing additional heavy oil production capacity in Alberta.

Foreign trade continues to account for roughly 40 per cent of GDP and the outlook remains positive given the strong performance of the US economy, Canada's primary export market. Statistics Canada reported that exports rose more than 7 per cent to C$302bn last year, although growing imports led to a deterioration of Canada's merchandise trade balance to C$23bn. A key concern remains the country's current account, which after showing a small surplus in 1996 registered a C$17bn deficit last year.

Unemployment, too, remains a vexing problem for the Liberal government, despite the creation of about 370,000 net new jobs last year. The jobless rate has fallen from 10 per cent in November 1996 to 8.5 per cent in March this year and economists forecast that it should fall to 7.5 per cent next year. Stubbornly high unemployment has, however, contributed to relatively low labour costs, one of several reasons Canada has again become a preferred location in which to conduct business.

A recent study by KPMG concluded that low labour costs offset relatively high corporate taxes to make Canada one of the cheapest locations among industrialised nations in which to establish and operate a manufacturing concern. Having slipped to 16th in the World Economic Forum's competitiveness rankings, Canada has since rebounded to fourth in its 1997 report. Foreign direct investment grew to C$188bn in 1997.

Much of the confidence shown in the economy is a result of several years of aggressive deficit cutting measures by the public sector. Ottawa this year announced its first balanced budget in almost 30 years, while Saskatchewan, Ontario, Quebec and several other provinces have either brought deficit spending under control or are well on the way to doing so.

The Bank of Canada has helped restore confidence by keeping inflation at the low end of its 1-3 per cent target band. Gordon Thiessen, the central bank's governor, last month said that while inflation will nudge towards 2 per cent this year, the combination of the improved public sector fiscal situation, low inflation and the private sector's efforts to increase productivity has dramatically improved the country's economic outlook. "I believe that those fundamentals are better in Canada now than they've been at any time since the 1960s," he said.

Virtually all regions of Canada will share in the country's good economic fortunes. Growth in Ontario will be fuelled by the province's manufacturing sector and its construction boom. Large capital investments in heavy oil and petrochemicals, as well as pipeline expansion, residential construction and retail spending will contribute significantly to Alberta's strong economy.

Quebec's economy continues to be fuelled by its high-tech industries, such as aerospace, pharmaceuticals, biotechnology and electrical and electronic goods, much of which is destined for the strong US market.

Manitoba and Saskatchewan will see increased consumer spending and continued investment in pipeline expansions, food processing and buoyant manufacturing industries. Energy developments, industrial growth and tourism will contribute to growth in the four Atlantic provinces.

Difficulties in British Columbia's key forestry sector were exacerbated by economic troubles across the Pacific, but the effects of the Asian crisis will be partially offset by gains in the province's expanding film industry and its small but growing high-tech sector.

Despite the outlook, there are concerns Canada is vulnerable to external shocks, such as a deepening or widening crisis in Asia, even weaker commodities prices as well as a stock market correction or an interest rate increase in the US.

At the same time, the weakness of the Canadian dollar is a problem. The Bank of Canada raised its key bank rate to 5 per cent early this year after the currency set a record low of US68.2 cents.

The dollar has recovered somewhat but a number of factors continue to put pressure on the currency, including the unwarranted perception that Canada remains primarily a resource exporting economy. Short-term interest rates that remain below those in the US and the political uncertainty in Quebec are also factors.

While a weaker dollar makes exports more competitive, economists are concerned that the Bank of Canada might raise its rate in a bid to buoy the currency or in response to a move by the US Federal Reserve Bank.

That would hit hard at consumers who are highly indebted, and some fear that higher Canadian rates would squeeze domestic demand and business investment just as the economy is hitting full stride.

But Paul Martin, the finance minister, says that Canada's economy has proven quite resilient to the Asian crisis, with medium and long-term rates dropping since the Asian crisis unfolded. "It is the strongest confirmation of the dramatic financial turnaround of the Canadian economy," he says.

QUEBEC • by Edward Alden

Charest: federalists' big hope

Closeness of last sovereignty vote sparked a new sense of maturity and realism

In November of 1995, Canada came within 50,000 votes of beginning negotiations on its own dissolution. The near-miss in the referendum on Quebec's sovereignty shocked the federal government, the rest of the country, and even supporters of a separate Quebec.

By a margin of just 0.08 per cent, Quebeckers had voted to remain in Canada, a result so close it shook the country out of complacency.

That may not be a bad thing. Since the near miss two and a half years ago, both sides in the 30-year-old conflict appear to have acquired a new maturity and realism. Ottawa has pursued a two-pronged strategy of trying to reassure Quebec that the French language and culture will not be threatened in a united Canada, while simultaneously ensuring the federal government will not be caught flat-footed if there is a successful referendum in the future.

In Quebec City, the separatist Parti Québécois government is on the verge of tabling its first balanced budget, and is presiding over an economy that looks healthier than it has in decades.

Ottawa has asked the Supreme Court to clarify the legality of separation under Canada's constitution, how large a majority would be required for a successful referendum, and which issues must be negotiated in the event of a vote to secede.

While the move has angered many Quebeckers, it is extremely popular in the rest of the country, pleasing hardliners who talk about partitioning Quebec between French and English-speakers in the event of a 'yes' vote. The courts decision is expected later this year.

But Ottawa hopes those questions will be merely academic, and its fortunes now rests with Jean Charest. Mr Charest, who is widely credited with saving the federalist cause with a series of impassioned speeches in the dying days of the 1995 sovereignty fight, has left the leadership of the moribund federal Conservative party to take over Quebec's provincial Liberal party. His predecessor, Daniel Johnson, was eased out in part because Quebec business leaders became convinced he could not defeat the sovereigntist leader of the Parti Québécois, Premier Lucien Bouchard, in the next election.

Mr Charest, in contrast, is leading Mr Bouchard in public opinion polls.

The election promises to be one of the most dramatic in the province this century, pitting two former federal Tory cabinet ministers in a battle for the soul of Quebeckers.

Mr Bouchard already appears a bit off-balance; he cancelled plans for an election call this year and is hinting he may not hold another referendum even if the PQ wins the next election.

He is a skilled leader, and has tagged his opponent as the *New Coke* candidate – all marketing and no substance.

Mr Bouchard came to power, following the last referendum, determined to bring the government's ballooning budget deficit under control.

In November 1996 he convened a summit of top business and labour leaders, who agreed to support a plan for eliminating Quebec's C$5.8bn budget deficit by 2000. He has been able to cut government spending without alienating trade union supporters, in part by offering generous early retirement packages for civil servants.

Business confidence in Quebec is gradually being restored. For the first time in decades, Statistics Canada is forecasting that non-residential investment growth in Quebec will outstrip the Canadian average – 8.9 per cent compared with 8.7 per cent. Alcan Aluminium recently announced its intention to spend C$2.2bn building a new smelter in the Saguenay region.

While the threat of another referendum remains discouraging, the deficit reduction programme has been looked on favourably by business, says Yvan Allaire, executive vice-president of strategy and corporate affairs for Bombardier, the Montreal-based aerospace and transportation group.

A January survey by the Conseil du Patronat, which represents Quebec's largest employers, found that 71 per cent thought economic conditions were good or very good, up from just 38 per cent a year previous.

The Canadian Bond Rating Service last month revised its outlook for Quebec bonds from negative to stable. "It is not an upgrade yet, but it is a reflection of the fact things have stabilised," says senior vice-president Ihor Kots.

Montreal, which lost its status as the country's financial capital when political uncertainty drove many English-speaking businesses to Toronto, is staging a comeback. With encouragement from Quebec's generous tax credits for research and development, sectors such as transportation, aerospace, pharmaceuticals, biotechnology and software engineering are flourishing.

Quebec, however, will still trail the rest of Canada with 2.9 per cent growth this year and 10.6 per cent unemployment, according to the latest forecast from the Royal Bank of Canada.

Mr Bouchard's motives, it is recognised, are not inconsistent with the Parti Québécois' eventual goal of sovereignty. "Deficit zero was a way of saying if we go and become sovereign we will not be strangled by the financial markets," says Francois Vaillancourt, an economist at the Université de Montreal. In Quebec there is no strong fetish for a zero deficit.

In the budget speech last month, finance minister Bernard Landry said the elimination of the deficit is an inescapable milestone in the realisation of Quebec's other economic and social priorities.

A revitalised economy might convince Quebeckers they should stick with Canada. Or it might persuade them they are strong enough to go it alone. But if it did nothing else, the 1995 referendum should finally have convinced Canadians outside Quebec that the sovereignty issue will not go away.

About 40 per cent of Quebec's population, and 60 per cent of its francophone population, strongly supports a separate Quebec. And while a majority of Quebeckers say they do not want another referendum at this time, they also say they want constitutional changes to address Quebec's concerns within confederation, something Ottawa probably cannot deliver.

Under the right circumstances, Mr Bouchard might win support from enough of the so-called soft nationalists to win a referendum and declare a sovereign Quebec. Equally, Mr Charest may be able to convince them that Quebec remains better off in a united Canada.

Either way, the enduring question of Quebec's place in confederation is unlikely to go away.

So near a breakaway: 'Yes' supporter burns 'No' sign and Canadian flag in October, 1995 *Reuters*

ENVIRONMENTAL PRODUCTS • by Scott Morrison

Water expertise is crystal clear

The sector's strength lies in purifying and recycling treatments

Ballard Power Systems has recently emerged as one of Canada's most promising pioneers of environmentally sound technology. It has for the past decade worked to develop a commercially viable proton exchange membrane fuel cell, an electricity generating device that uses hydrogen to power vehicles while emitting simple water vapour as exhaust.

The company has reduced the size and cost of its fuel cell dramatically in that time, leading Firoz Rasul, Ballard's chief executive, to predict his company's product will power mass produced vehicles within a decade.

Encouraged by Ballard's efforts, Ford and Daimler-Benz have in the past year invested about C$1bn in the company.

Ballard is one of more than 4,000 companies that comprise Canada's environmental industry, which generates annual revenues of between C$17bn and C$27bn, depending on whether products such as green building materials are included.

A knowledge-based industry that primarily comprises small and medium enterprises (SMEs) with high export growth potential, Canada's environmental sector embodies the characteristics which the government has identified as being important to the country's economic future. Industry Canada, the federal ministry, expects the sector to grow by about 4 per cent annually in the short term.

The sector features technologies that are primarily regulatory driven because they deal with contamination reduction, but a growing number of innovations and processes are reducing pollution and increasing industrial efficiency.

The bulk of Canada's environmental .. technology groups work to improve drinking water standards or recycle waste water. Trojan Technologies has captured at least 70 per cent of the international market with its ultraviolet water purification products. Zenon Technologies has become a world leader with its membrane products to purify and recycle water.

Other water treatment processes being developed in Canada include wet air oxidation, which breaks down complex organic compounds, and biological nutrient removal, which strips phosphorous and nitrogen from contaminated sources.

Research and development groups are also active in solid waste treatment, while a smaller percentage of companies are dedicated to reducing air pollution.

Service and consulting groups make up between 50-65 per cent of Canada's environmental industry.

Some 50 per cent of the nation's environmental technology industry is based in Ontario, which in recent years has been one of the more contaminated areas in North America. The province's close trading links to the US, an important market for Canadian environmental technology, has led industry analysts to forecast the provincial sector will grow at a rate three times faster than Ontario's overall economy.

Growth across Canada's environmental industry is forecast to grow strongly as a result of a number of developments. Recent international agreements and more stringent national standards have prompted the private sector to begin investing in programmes to upgrade water treatment capabilities and prevent air contamination, offsetting a decline in public sector initiatives.

A significant opportunity stems from last year's Kyoto Climate Change Convention. Canada pledged that between 2008 and 2012, it would have reduced greenhouse gas emissions by 6 per cent from 1990 levels, an ambitious target given that emissions have increased since the beginning of the decade.

The ability of environmental firms to grow will depend largely on their ability to tap a larger share of the US$450bn international market, of which Canadian companies have captured an estimated 3 per cent. In line with Canada's overall trading pattern, some 80 per cent of environmental exports are destined for the US. Developing nations moving to adopt green technologies, however, represent 80 per cent of the international market, which is seen as likely to expand to US$600bn by 2000.

Canadian firms seeking to enter markets in Latin America and Asia will be challenged by larger rivals in the US, Europe and Japan. And financing remains a significant hurdle for the thousands of SMEs that comprise the Canadian industry. Trade development agencies such as the Export Development Corporation and the Canadian Commercial Corporation provide financial and contractual support, but the department of foreign affairs and international trade recognises that the smaller firms still have difficulty developing the delivery and financing packages that would allow them to be more competitive with larger foreign rivals when bidding on large BOT (building-operate-transfer) projects abroad.

The department's environmental industries strategy includes several initiatives designed to help small- and medium sized environmental companies learn of international opportunities. The government has begun developing market intelligence reports for the industry and has trained consular staff to identify trade opportunities. It also says it will support the establishment of alliances among SMEs with complementary strengths, or between the public and private sector in order to enable the companies to become more competitive when pursuing international opportunities.

But Ronald Portelli, the president of the Canadian Environment Industry Association, says federal officials have sent mixed signals about their commitment to promoting the sector. While the government in 1994 pledged C$15m for programmes to develop infrastructure for the industry, Ottawa's failure this year to renew spending raised concerns among those involved in the sector.

Industry leaders say they would like to see more environmental technologies companies benefit from the Technology Partnership Canada programme, a federal initiative which provides grants to high-tech firms that are repayable out of sales royalties, if any. But while additional government funding and environmental regulations would undoubtedly provide impetus to environmental companies, their prospects ultimately depend on their own abilities to generate innovations.

US-CANADA TRADE • by Edward Alden

The Canuck mouse roars

Asian crisis contained, as exports to US continue their march upwards

Canadians have long worried about their economic dependence on the United States. Former prime minister Pierre Trudeau once joked that living next to the US was like a mouse sleeping beside an elephant; if the elephant rolls over, the mouse gets crushed.

In its most recent review of Canadian trade policy, the World Trade Organisation warned about the potential vulnerability of the Canadian economy deriving from such high reliance on one large trading partner. But when the Asian financial crisis hit last year, many Canadians breathed a sigh of relief that the country's efforts to diversify its export markets have only been minimally successful.

The country has escaped most of the adverse impacts of Asia's collapse, largely because exports are booming to a US market that is entering its eighth year of growth.

Ten years ago last autumn, Canada took the gamble of renouncing its historic national policy of development behind a high tariff wall and entered into a comprehensive free trade agreement with the US. That decision was preceded and followed by a wrenching national debate which is only now subsiding.

The result was to further cement Canada's already close trading ties with its huge neighbour to the south. Exports to the US rose from 70 per cent of all Canadian sales abroad in the 1980s to 80 per cent in the 1990s; in the largest province, Ontario, almost 90 per cent of its exports head south.

In 1988, Canada exported C$105bn to the US; last year it exported C$244bn, while over the same period imports grew from C$92bn to C$212bn. Since entering the free trade deal, Canada has become one of the world's most enthusiastic supporters of trade liberalisation, pursuing agreements with Asia, Latin America and Europe.

Canadian governments have encouraged companies to seek out new export markets, carrying out high profile trade promotion missions to Asia and Latin America. But the pull of the continental market continues to dominate.

"The American market is the pre-eminent market in the world," says international trade minister Sergio Marchi. "It will continue to be for the foreseeable future. Everybody wants a piece of the American economic pie and the fact that Canada has preferential access is a tremendous advantage."

Free trade with the US was driven by two goals: to ensure the periodic resurgence of US trade protectionism would not block Canadian companies from their most important export market, and to force Canadian companies to be competitive beyond the domestic market.

On the first goal, the agreement has undoubtedly been a success. While Canada's trade surplus with the US reached a record high of C$40bn in 1996, dipping slightly to C$32bn in 1997, trade friction between the two countries is minimal.

The handful of trade disputes do not amount to much given the two-way trade of C$456bn in 1997, the largest between any two countries in the world.

The main reason is the buoyant US economy, which has dampened political pressures for import-restricting measures. But Barry Appleton, a Toronto trade lawyer, also credits the dispute settlement mechanisms set up under the 1994 North American free trade agreement. Both governments are discouraged from implementing measures that may violate the agreement because of the availability of binding dispute settlement mechanisms.

But simmering disputes remain over softwood lumber and wheat exports, over Canada's high tariffs on dairy products, and on Canadian efforts to protect cultural products such as books, film, TV and magazines by discriminating against foreign content.

Like the European Union, Canada is also annoyed by US efforts to block investment in Cuba.

If the trade pacts have been successful at dampening trade frictions, their impact on Canadian industry is less clear. Some observers say they have changed fundamentally the way Canadians do business. "The reality is our businessmen have learned to trade by way of a North American platform," says Alan Alexandroff, a principal with LECG, a Toronto consulting firm.

Certainly for those sectors protected by the highest tariffs, such as leather, furniture, textiles and clothing, adjusting to continental competition has been wrenching, though some have been remarkably adaptive. The small apparel industry, for instance, shifted from producing 97 per cent for the domestic market before the agreement to exporting 40 per cent of its production. While employment in the industry fell by a quarter from 1991 to 1995, investment doubled to C$350m and productivity improved substantially. Most apparel firms now produce for specialised niche markets on a continental basis.

Furniture production, which had already been falling, dropped sharply from 1988 to 1992, but since that time has outpaced its US competitors in productivity improvements, and more than recovered its losses. Other industries like petrochemicals, pulp and paper, food processing, and telecommunications and office equipment have also taken advantage of new export opportunities.

A recent study on business location costs by KPMG Canada found Canada had a 5.4 per cent cost advantage over the US across eight different industries surveyed, including electronics, medical devices, pharmaceuticals, software and telecommunications equipment.

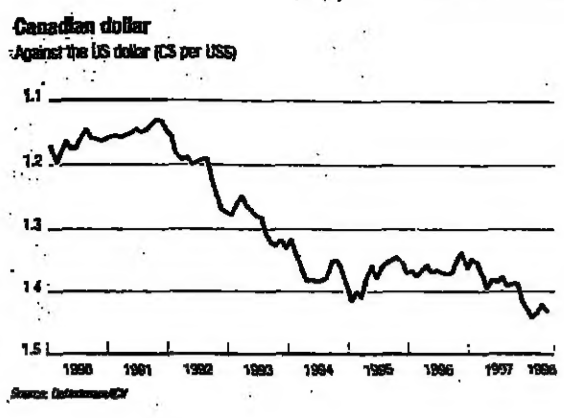
But free trade has not had the expected effect of reversing the long relative decline in Canadian productivity. In a study released last autumn, economists Jeff Rubin and John Lester of CIBC Wood Gundy concluded Canadian manufacturing productivity has continued to erode despite free trade, slipping from 85 per cent of US levels in 1984 to 80 per cent in 1996.

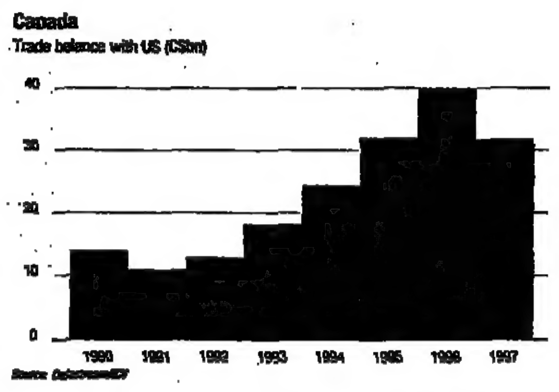
"If you thought the free trade agreement would give stimulus to Canadian manufacturers to reach US productivity levels, on that point it's a failure," says Mr Lester. The reason, he concludes, is that the sharp depreciation of the Canadian dollar, which fell from US85 cents in the late 1980s to US70 cents today, has more than blunted the effects of tariff elimination.

In only three sectors – leather, furniture and clothing – did the decline in the tariff rate exceed the depreciation of the Canadian dollar. In every other major manufacturing sector, the study said, the industries were effectively more protected today than they were before free trade.

That conclusion may not bode well for Canada-US economic relations. "A cheap currency is in the long run simply self-defeating," says Mr Lester. "It stops you from making the necessary adjustments."

But for now, Canadian exporters are enjoying the fruits of a low dollar, a booming US economy, and the opportunities opened up by the free trade agreements. "Ten years after, the Canadian public is prepared to say the deal has been good for our economy," says Mr Marchi. "The country's saying its been good for us, and now we're seeking out opportunities all over the world."





MANUFACTURING • Scott Morrison

Industry enjoys best time for a long while

Confidence and output are high. But productivity gap with US causes concern

Canadian manufacturers in 1997 enjoyed one of their best years in recent memory. Rising exports and a resurgence in domestic demand enabled them to increase the value of shipments to a record C$435bn, while capital investment rose, capacity utilisation rates climbed and operating margins increased.

The manufacturing sector, which contributes about 18 per cent of Canada's gross domestic product, will this year continue to expand, although perhaps at a somewhat slower pace as growth of the overall economy eases to about 3.2 per cent in 1998. The Alliance of Manufacturers & Exporters Canada (Amec), a trade association, forecasts the value of industrial output will increase by 3.5 per cent this year, slightly higher than estimated overall GDP growth.

While Canada's industrial base is slowly expanding across the country, output remains dominated by Ontario's automotive and auto parts manufacturers, which produce about 20 per cent of North America's vehicles.

Producers of food and beverages, electronic equipment as well as wood and paper products comprise a significant component of the economy's might. The aerospace industry is a key growth sector, as are Quebec's pharmaceutical and biotechnology producers.

While Canadian manufacturers have performed impressively in recent years and business confidence remains high, they are aware of the challenges they face to remain globally competitive. A key concern is the productivity gap between Canada and the US.

Canadian manufacturers boosted productivity by about 16 per cent in the first eight years following the implementation of free trade in 1989, but some economists contend the US has improved productivity more quickly.

The productivity gap has become the subject of an unending debate in Canada, with some economists arguing that corporations have remained internationally competitive only because the Canadian dollar has gradually weakened.

John Manley, minister of industry, says Canadian corporations will remain competitive should the currency regain lost value, although a stronger Canadian dollar would clearly put pressure on manufacturers further to invest in productivity gains.

He says productivity gains have not been as great as in the US in recent years because Canada emerged more slowly from the 1990-92 recession and investment in research and development has lagged behind that of the US. Exceptions to the rule include Northern Telecom, the world's sixth largest telecommunications equipment manufacturer

Strong growth in pharmaceuticals, biotechnology and the aerospace industry, led by Bombardier and Pratt & Whitney, has also been the result of substantial R&D investment.

Amec has highlighted R&D as a top priority for manufacturers and the association projects its members will this year spend C$18.8bn, a 7.5 per cent increase, on new technologies, machinery and equipment. The federal government has since 1996 contributed to R&D through its technology partnership programme, which invests C$250m annually in development projects undertaken by corporations in Canada.

Some 50 per cent of funds have been directed to aerospace manufacturers. R&D tax credits have provided manufacturers with significant incentives, but they could become a contentious issue this year, given a recent report by a government commissioned business taxation committee.

It concluded corporate taxes must be significantly reduced to help Canadian firms remain internationally competitive. But Stephen Van Houten, Amec's president, says additional proposals to reduce existing R&D tax credits, as well as lower capital cost allowance rates, would offset much of the gains of lower taxes.

Labour issues are also of concern to manufacturers. A recent report by the Conference Board of Canada, a respected think tank, has warned corporations prepare for increased labour unrest over wages and workplace flexibility as unions react to recent economic growth.

While union are expected to put pressure on managements for substantial wage increases and employment security provisions, corporations will opt for modest wage increases and incentive plans contingent on financial objectives being met as employers continue to focus on improving productivity while maintaining a competitive market advantage.

Another challenge for manufacturers will be to overcome a shortage of skilled labour, particularly among high technology companies that have begun to hold job fairs to attract employees. Computer software producers and other high-tech groups have had to contend with US companies luring Canadian graduates with higher compensation packages. Increasingly high-tech automotive producers face similar problems, although they are finding that young workers are growing averse to what is seen as "blue collar" work.

Mr Manley says Canadian universities been unable to respond quickly to the demands of the increasingly high-tech global economy. Governments could eventually ease the shortfall with additional funding, but the industry minister says corporations will ultimately be required to contribute for the education they require for their workers.

FINANCIAL SERVICES • by Edward Alden

Merger wave hits cosy banking world

Blockbuster deals put the sector under an intense political spotlight

To merge or not to merge. That is the question confronting the Canadian financial services industry and the federal government as this once stable and predictable sector is being turned upside down by a wave of consolidation.

On January 23, the Royal Bank of Canada and Bank of Montreal, the country's second and third largest banks, announced their intention to merge. Three months later, the largest and fifth largest banks, the Canadian Imperial Bank of Commerce (CIBC) and Toronto-Dominion Bank (TD), also unveiled merger plans.

For a country where five large banks have controlled more than 80 per cent of bank assets since the 1920s, two blockbuster mergers in three months was a shock. The federal government had been in the midst of a leisurely consultation and review process which has now been put under an intense political spotlight.

Jim Peterson, Canada's secretary of state for financial institutions, says the mergers are one of the two or three most contentious issues facing the Liberal government.

Canada's current policy, captured by the notion big shall not buy big, prevents the large banks from merging without specific approval by the minister of finance. The government has made it clear it will wait until the report of a task force this September and subsequent public hearings before deciding on the two proposals.

To the banks, the mergers are a logical response to growing consolidation of financial institutions in the US and Europe. Some 40 per cent of their revenues are generated outside Canada and the banks feared they would simply be too small to compete with the giant institutions being formed. While the merged Canadian banks would not be global giants, they would be highly competitive in some important niche markets.

TD and CIBC, for instance, would be world leaders in discount brokerage and index funds, and would be very competitive in high-yield bond issues. The Royal and Bank of Montreal are planning an aggressive acquisition strategy to make the merged bank a major player in US mutual funds.

The mergers are defensive as well. Charles Baillie, the chairman and chief executive officer of Toronto-Dominion Bank who would head the new merged bank, says that without the CIBC partnership TD would have been vulnerable to a foreign takeover. "As Canada moves towards allowing more foreign competition in its domestic market, at the size we were at we were more likely to be acquired than to be an acquirer. And I'd like to see us have Canadian headquartered banks," he says.

But to the government, the issue is by no means so straightforward. "There is a balance between the benefits of size in terms of international competition, which remain to be proven, and on the other side the absolute necessity of maintaining a reasonable level of domestic competition," says finance minister Paul Martin.

The net result of the mergers would be two banks with somewhere between 60 and 70 per cent of core banking.

Canada, like most small industrialised countries, has long had a concentrated banking system, and there are strong public fears of what even greater concentration would mean. The financial services industry as a whole is critical to the economy, accounting for 16 per cent of GDP, second only to manufacturing.

Mr Peterson says the banks will have to meet a number of conditions for the government to look favourably on the merger. These include maintaining branches in small towns, improving access for small depositors, strengthening lending to small businesses and ensuring minimal job losses.

Another likely quid pro quo for approval of the mergers will be to open the Canadian market more widely to foreign competition. "It will be unfettered, and I really mean unfettered," says Mr Baillie. "And I support that. I think we'll be big enough that if we can't look after ourselves we shouldn't be protected."

Under the 1967 Bank Act, Canada forbids any single buyers from acquiring more than 10 per cent of a bank's shares, which protects them from foreign takeovers.

Canada has gradually been opening its borders already. There are currently 46 foreign banks with some presence, the largest being the Hongkong Bank of Canada.

MBNA, the huge Delaware-based credit card company, has launched a foray into Canada, Fidelity Investments is selling mutual funds and Wells Fargo is moving into cross-border small business lending. US auto leasing firms also dominate a market from which the banks are excluded.

Ottawa has also pledged to introduce legislation in the next several months allowing foreign banks to branch directly into Canada without first establishing fully-capitalised subsidiaries.

But foreign institutions alone will not take care of Ottawa's concerns over competition. "Foreign banks come in, but are they going to open up branches in rural Alberta and rural Nova Scotia?" says Mr Martin. "They haven't in other places."

The foreign presence in Canada remains small, holding a combined C$92bn in assets compared with C$1,100bn for the largest banks.

The banks are not the only financial institutions facing major changes. Canada's life insurance companies have also been following the lead of UK, American and Australian insurers in converting their mutual ownership structures to shareholding.

Canada's four large insurance firms – Mutual Life, Manulife Financial, Canada Life and Sun Life - have all announced their intention to demutualise.

The companies say the new structure will give them the flexibility to raise capital in equity markets in order to expand more quickly internally and through acquisitions.

But demutualisation will not suddenly throw the insurance companies into the full force of international competition. The legislation permitting demutualisation spells out that the new institutions must be widely held, a rule intended to prevent them from being takeover targets.

Ottawa is currently writing the regulations specifying just what widely held means, as well as dealing with other issues such as ensuring policy holders receive fair share value for their holdings. The regulations will be published in the next several months.

NATURAL RESOURCES • by Edward Alden

Harder times for commodities

Slumping Asian markets take toll on traditional backbone of the economy

MacMillan Bloedel, Canada's largest forest products company, set the tone for what much of the Canadian resource sector is facing this year. The beleaguered giant, hit by high wood costs and slumping markets in Asia, announced in January it was quitting unprofitable businesses, cutting 2,700 jobs and restructuring its operations from top to bottom.

The company took a C$340m after tax charge in 1997 for the restructuring, then proceeded to sell off its paper operations this spring.

Such aggressive moves may become increasingly common as Canada's resource industries struggle to adapt to soft international markets. In contrast to Canada's booming manufacturing and service sectors, resource industries, traditionally the backbone of the economy, are lagging.

Lumber prices are 35 per cent lower than a year ago, pulp and paper prices are flat, mineral prices are generally lower than any time since 1993, and oil, at less than $16 a barrel, has hit real price lows not seen since the mid-1960s.

The decline in commodity prices, one of the major effects of the Asian financial crisis, has some Canadian resource firms shelving development plans. Inco, North America's largest nickel producer, said last month it will go ahead with developing its Voiseys Bay nickel project, believed to be the largest deposit in the world, only if it makes economic sense to shareholders.

A year ago nickel prices were near $3.70 per pound; today they are hovering near $2.40 per pound. At that price, a recent analysis by Goldman Sachs concluded that the project is no longer viable.

Petro-Canada, one of the country's largest integrated oil and gas producers, announced last month it will cut C$1.2bn in capital spending for 1998 that was planned when a barrel of oil was more than $20.

Bank of Canada governor Gordon Thiessen said last month that low commodity prices are a major reason for the continued weakness of the Canadian dollar, which hovers around US70 cents. He said that while there is some evidence of strengthening commodity prices reflected in certain resource company stocks, this is by no means a certainty. A lot is going to depend on the situation in Asia.

In oil and gas, the companies hardest hit are those with significant investments in oil, particularly lower-priced heavy oil, said John Clarke, an analyst with Deutsche Morgan Grenfell in Toronto. The merger frenzy of 1997 left several companies with what now look like over-priced heavy oil buys, said Mr Clarke, including Ranger Oil's purchase of Elan Energy, Gulf Canada's acquisition of Stampeder Exploration and Pan-Canadian Petroleum's takeover of CS Resources.

Gas producers, in contrast, are poised for stronger growth. While gas prices are still off from 1996 highs, they have risen about 25 per cent from last autumn's lows, and Canadian companies will gain new access to the huge American market when Alliance Pipeline completes its C$3.7bn link from northeastern British Columbia and Alberta to Chicago in 2000, which will carry 1.3bn cubic feet of gas daily.

Despite the short-term difficulties, Canadian oil producers are continuing to forge ahead with long-term projects. Over the past two years, more than C$20bn in investments have been announced to develop Canada's oilsands, thought to contain the largest oil deposits in the world.

The major players include Syncrude Canada, a consortium led by Imperial Oil, Petro-Canada and Canadian Occidental Petroleum, as well as Gulf and Suncor. Due to technological improvements, costs for extracting the oil are now close to those for extracting conventional oil.

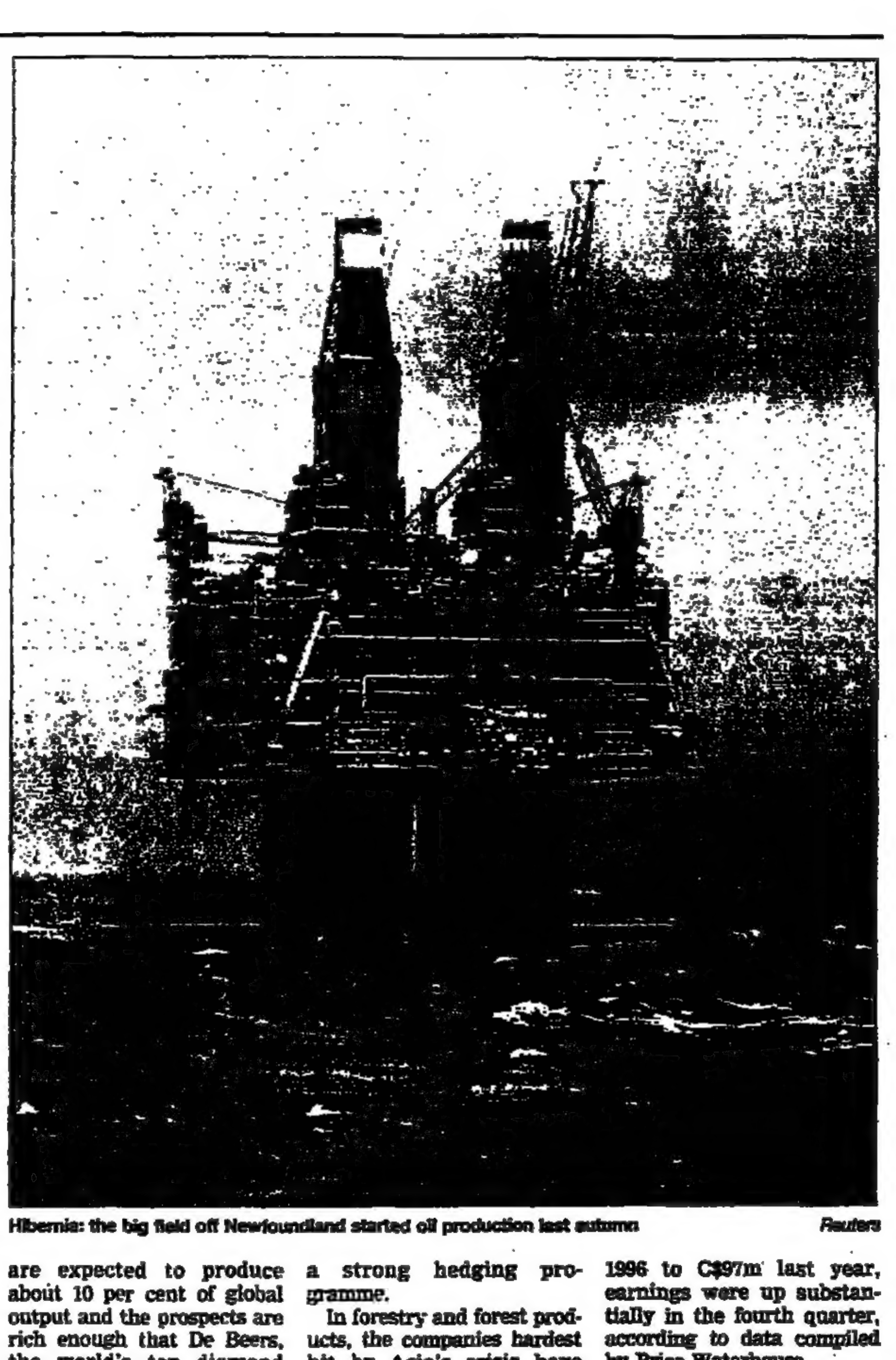
The C$3bn Sable gas project off Nova Scotia has been given government go-ahead and drilling is expected to start soon in pools thought to contain 142bn cubic metres of gas. Oil production began last autumn from the big Hibernia offshore field, near Newfoundland, and is expected to peak at 135,000 barrels a day from a site estimated to contain 615m barrels of reserve. And construction will begin this autumn on the nearby C$2.6bn Terra Nova field, estimated to contain 360m barrels. Both projects are thought to be money-makers, even at current prices.

Mining, an industry in which Canadian firms are world leaders, is also going through hard times at home. Declines in the price of copper and nickel have hurt the earnings of Canada's mining giants, including Inco, Falconbridge, and Noranda.

Cominco announced earlier this year it would get out of the nickel market entirely by closing its Glenbrook smelter in Oregon. Native land claims, which were bolstered by a key Supreme Court victory this spring, have made tenure less certain for some Canadian companies.

Production of Canadian metals by value dropped for the second straight year in 1997, and will likely drop further this year if prices do not turn around. "For the next two years I think most companies are going to find it relatively tough," says John Webster, chairman of the Canadian mining group for Price Waterhouse.

But there are some bright spots. Canada is poised to enter diamond mining with a splash when the Ekati and Diavik mines in the Northwest Territories begin production, the first starting this autumn. The two mines are expected to produce about 10 per cent of global output and the prospects are rich enough that De Beers, the world's top diamond marketer, recently opened a Vancouver office. New uranium mines in Saskatchewan are also poised to begin production soon.



Hibernia: the big field off Newfoundland started oil production last autumn *Reuters*

Barrick Gold, the gold producer which is Canada's largest minerals firm, turned in a strong year last year and even a stronger first quarter in 1998, largely on the strength of a hedging programme which has protected the company from the decline in gold prices.

While gold is at its lowest levels in a decade, at near $300 an ounce, Barrick has forward sold all of its production at $400 an ounce. Place Dome of Vancouver has similarly benefited from a strong hedging programme.

In forestry and forest products, the companies hardest hit by Asia's crisis have been British Columbia's coastal lumber producers. BC forest companies lost $C350m in 1997 and C$290m in 1996, according to the latest figures compiled by Price Waterhouse. Harvest levels in BC are predicted to hit a 15-year low this year.

Apart from the slump in Asian markets, BC coastal companies in particular have been hurt by inaccessible timber, high labour costs and a growing regulatory burden.

But eastern Canadian forest products companies have fared better than their BC counterparts. While profits at the 10 largest firms declined from C$407m in 1996 to C$97m last year, earnings were up substantially in the fourth quarter, according to data compiled by Price Waterhouse.

Abitibi-Consolidated, the world's largest newsprint producer, continued this stronger profit showing in the first quarter of 1998. Both newsprint consumption and prices are expected to rise modestly this year. Investors are clearly expecting better times as well, having driven the Toronto Stock Exchange's index up more than 20 per cent since the beginning of the year.

While the slump in Canada's resource industries is a serious one, it is not unusual in such highly cyclical industries. What is more noteworthy is how little impact this slump has had on the larger economy.

ELECTRICITY • Scott Morrison

Strong lure of markets to the south

Resource-rich companies will need a stronger service ethos in order to prosper

Provincially owned utilities have long enjoyed a special status in Canada. As de facto extensions of their governments, the utilities have enjoyed the benefit of provincial debt guarantees and were given virtual monopolies within their jurisdictions. Mandates to service their entire territory compelled them to become some of North America's largest generators.

Such regulated environments enabled them to thrive. Ontario Hydro was until recently considered one of the best nuclear power plant operators in the world. Hydro-Quebec and British Columbia Hydro are among the lowest cost producers in North America, with efficient hydroelectric projects.

But the evolution of competitive energy markets in the US, and a 1996 ruling by the US Federal Energy Regulatory Commission, is beginning to promote change in Canada. FERC's Order 888 has forced the utilities to open their transmission grids for wholesale use by third parties in order for the public companies to have reciprocal access to US markets.

Provinces have responded in varying degrees. Hydro-Quebec and BC Hydro have opened their transmission grids and obtained licences to market electricity in the US, but they have not allowed retail access to competitors in their jurisdictions. Ontario Hydro, on the other hand, was initially denied a FERC licence but the province has since announced it will open its market to full retail competition by 2000.

Within that context, Ontario Hydro is to be reorganised into a generation arm and a separate corporation responsible for transmission, distribution, retail and operating contracts. A third branch, a non-profit-making independent market operator, would act as an impartial manager of the market system. The opening of Ontario's market poses significant opportunities for foreign utilities, particularly those from the US, but as it is not yet known exactly how the central market operator will function, it is difficult to envision how the sector will evolve.

Ontario Hydro sees itself becoming one of the dozen or so regional electricity powerhouses left standing once North American consolidation is complete. Independent analysts and some employees, however, have a much different outlook for the utility, given that it must contend with revamping its ailing nuclear division while preparing for upcoming market changes.

The corporation shocked industry observers and customers last year by announcing it would shut seven reactors that were deemed to be operating at minimally acceptable safety standards. That raised many questions about the state of the utility's nuclear generation capacity. It is widely believed that the government would like to privatise its electricity assets, but public opinion has forced officials to delay such a radical remedy.

The company has said it is reviewing all offers from private investors, both domestic and foreign, that are interested in joint ventures. British Energy is one of several companies that have expressed interest in acquiring or managing Ontario Hydro's nuclear assets. The Canadian utility has also said it would consider assets swaps with US counterparts in order to expand market base. Some industry sources say that Ontario Hydro's generation assets would prove so inefficient in a competitive market that they would only attract buyers at bargain prices.

Canada's evolution towards competitive electricity and its integration into a wider North American market is seen as inevitable. Alberta, which has been at the forefront of electricity deregulation in Canada, recently passed a second bill designed to increase competition. The latest bill will eventually do away with a price hedging system put in place when the province established a central pool to which all power generators sold and from which resellers could buy electricity at a market rate.

Industry observers expect Hydro-Quebec will become a significant provider of electricity in the northeastern US states. It has proven itself capable of generating low cost hydroelectricity and transmitting it over long distances. The utility is reviewing opportunities to acquire natural gas fired generation capacity in New England to complement its hydroelectric supply to the US. BC Hydro says it intends to continue selling excess electricity to industrial users south of the border.

But sceptics question whether Canada's large public utilities can compete with more nimble US producers. Electricity is increasingly seen as a commodity in the US, while Canadian producers remain bound by a culture in which serving public needs is the dominant mantra. And their large size will likely prevent them from moving quickly to respond to a changing market.

"Can a provincial utility with 20,000 employees make it in the day-to-day competitive world? Probably not. The effective competitors tend to be quick and decisive," says Robert McCullough, a US energy consultant.

But many Canadian generators enjoy a fundamental competitive advantage. Alberta's private generation companies have access to extensive natural gas deposits, which are an important resource as the industry increasingly moves toward efficient natural gas fired plants. Quebec and British Columbia enjoy a similar natural resource advantage with their access to cheap hydroelectricity. Ontario Hydro was once among the world's most efficient nuclear generators, but the utility's competitive advantage has become a liability.

BRITISH COLUMBIA • by Edward Alden

West coast loses some of its shine

The province lags the recovery being made by rest of the country

British Columbia has always been Canada's exception, a province of temperate, wet weather in a land of ice and snow, a landscape of mountains and rainforest in a country dominated by sweeping plains and granite shield. BC is also the country's exception economically. While most of Canada is in the sixth year of a healthy recovery, BC is languishing, hit by low resource prices, high taxes and a bad case of the 'Asian flu'.

The situation was severe enough that earlier this year BC's premier, Glen Clark who heads the trade union-backed New Democratic Party, buried the hatchet to sit down with the province's top business leaders to hatch a plan to bring the good times back to BC.

A series of meetings by the so-called powerbrokers group produced consensus on a modest package of tax cuts and regulatory roll-backs unveiled in the March budget. But few think those measures will be enough to jumpstart the economy.

Stagnation is a rare experience for a province that has prospered for years from its rich endowment of forests, fish and minerals, and an attractive climate that has made it a mecca for wealthy Asian immigrants.

While central Canada suffered through its deepest downturn in half a century in the early 1990s, BC enjoyed steady growth. Now, with Canada anticipating 3 per cent growth, the BC government is forecasting just 0.9 per cent, and most economists think it could be even lower than that.

Asia's economic crisis hit BC harder than anywhere else in North America. The province sends about 36 per cent of its exports to Asia, compared with an average of 8 per cent for the rest of the country. BC's exports to the region in January of this year were 18 per cent lower than in January 1997.

Exports to Japan fell 27 per cent in 1997, largely because of falling demand for BC lumber. South Korean purchases of BC coal, minerals and pulp fell from $106m in October, 1997 to $41m in December. And exports to China declined steadily over the year.

"Asia is the reason we've done better than the rest of Canada and it's the reason why we're slightly behind right now," Glen Clark said earlier this year.

But BC's difficulties appear to go well beyond the temporary downturn in Asian markets. Helmut Pastrick, chief economist at the BC Central Credit Union, says there has been a steady deterioration in the province's terms of trade for the last several decades as commodity prices have weakened.

The hardest hit sector is pulp and paper, which at more than C$9bn annually is the province's second largest export product. The total value of BC pulp and paper exports has not increased in a decade as new competitors from the US, Asia and Scandinavia have driven down world prices.

In contrast, softwood lumber exports grew from less than $C5bn in 1990 to almost C$10bn last year. But lumber exports have been hurt by the decline in the Japanese construction market, while sales to the US are constrained under quota in an agreement reached two years ago to halt a long-running trade battle.

Mineral exports are also off significantly in the last decade and little new exploration is taking place. Tougher environmental restrictions, culminating in the government's expropriation of the Windy Craggy mine in northeastern BC in 1993, have driven many Canadian mining firms to seek out better opportunities in Latin America and Asia.

"The problem," says Mr Pastrick, "is that we've become a high-cost producer. We've lost our competitiveness. In lumber, for instance, most of the easily harvested wood has already been cut, forcing timber companies to seek out more remote, costlier supplies. That wood also tends to be located in more environmentally-sensitive terrain, increasing costs for compliance with environmental regulations."

Despite these difficulties, there are bright spots in BC's economic performance and signs of better things to come. Movie-making, for instance, is expected to attract more than C$600m to the province this year. The combination of a low dollar, skilled film crews and attractive natural settings has brought in a flood of Hollywood producers.

A small manufacturing sector is thriving on new export opportunities to the US opened up by the free-trade agreement. Exports of machinery and equipment were up 20 per cent last year. The diversity of small high-technology companies may contain another gem or two like Burnaby's Ballard Power Systems, which saw its share price rise to C$188 after agreements with Ford and Daimler-Benz to develop fuel-cell technology for the next generation of automobiles. And tourism has remained buoyant despite a drop in Asian visitors.

Premier Clark has been travelling North America urging expansion of the film industry, and trying to lure a major aluminium smelter with the offer of cheap electricity. And while proximity to Asia is not a selling point at the moment, BC remains well-poised to increase exports to that region when the current crisis runs its course.

"We're not in a crisis, but we are at a stage where growth is less than we want and where the perceptions of BC are not as good as they should be," says Mr Clark.

TECHNOLOGY • by Alan Cane

A Gretsky-like power play

The aim is to establish an economy firmly based on information

Canada's grand strategy in high technology seems to have been borrowed from the fast-moving world of ice hockey. It is planning to benefit from the economic equivalent of the "Gretsky effect".

Wayne Gretsky, a sports icon of unparalleled stature in hockey-mad Canada, made his name through skills which enabled him to anticipate the arrival of the puck ahead of the opposition and position himself accordingly.

By placing an emphasis on information, lifelong learning, the wired society and electronic commerce, Canada is hoping to benefit from the explosion of knowledge-based economies in the 21st century.

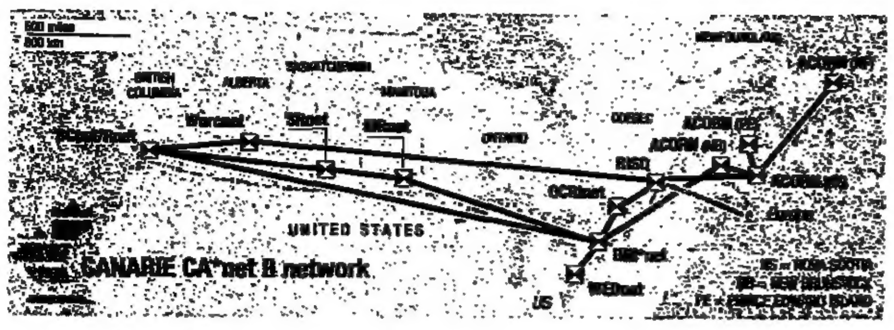
A small but significant number of Canadian companies are world leaders in the information revolution – Northern Telecom in telecommunications, Newbridge in data communications, Alias Wavefront and Softimage in three dimensional imaging, Geac Cognos and Corel in business software.

Some are Canadian owned, some not. It does not seem to matter as long as the basic research and development is carried out in Canada.

Bernard Landry, minister for economics and finance for the government of Quebec province argues: "I would not say it does not matter on a firm-by-firm basis, but if a US company buys a Canadian company and opens up an era of growth, then it is a plus."

Canada already boasts one of the world's most advanced communications networks, CA*Net 2, which snakes some 6,000 kilometres from Vancouver to St John's, Newfoundland.

Commissioned last year, it uses the advanced transmission technology (ATM). "While others were wondering how to do it, we went ahead and built it," says Andrew Bjerring, chief executive of the Canadian Network for the Advancement of Research, Industry and Education (Canarie).



Canarie is an industry-led organisation of about 120 companies, universities and public organisations committed to promoting Canada's information revolution. It will take the lead in the government's latest venture: the construction of the world's "first all-optical broadband network", CA*Net 3, to be initiated this year.

The government has committed C$55m to the project, rather less than half the total. Canarie will find the rest.

Canarie's networks, and the partnerships that are making them possible, are symbolic of Canada's determination to traverse the new millennium with an economy as soundly based in information as it has been in lumber and minerals.

John Manley, Federal Government Industry Minister, says: "In the past Canada depended on natural resources. Now it has to make use of technology. We are growing rapidly in many areas, including telecommunications, aerospace, biotechnology and pharmaceuticals."

The government's plans to create a wired society are most arresting. Mr Manley says: "By 2000, all communities of 400 people or more can expect to be connected to the internet. Already 90 per cent of Canadian households are passed by fibre optic cabling."

The scale of the proposed transformation should not be underestimated. In 1995, the information technology industries contributed only 6.8 per cent to Canada's gross domestic product, although growth in areas outpaced other sectors of the economy even during Canada's prolonged recession in the early 1990s.

Communications and co-operation, however, seem to come naturally to a nation whose 30m population is spread patchily along the narrow, habitable corridor close to the shared border with the US. Competitive instincts run deep as well. Ottawa and Quebec City vie for the prestige of being considered the heart of "Silicon Valley North".

But Canada's giant neighbour across the border is the chief source of rivalry. In justifying the development of CA*Net 3, the government says it will "equip Canada with a coast-to-coast, high performance network that is faster than its American counterpart".

The US remains a ready market for much Canadian production – including highly trained electronics and computer specialists. Canada is neither turning out enough graduates qualified in the information technologies nor persuading enough of them to remain in Canada.

Exact numbers are difficult to establish, but Canadian experts estimate about one third of each year's crop of graduates finds its way to jobs paying twice as much in the US. Other inducements include lower taxes.

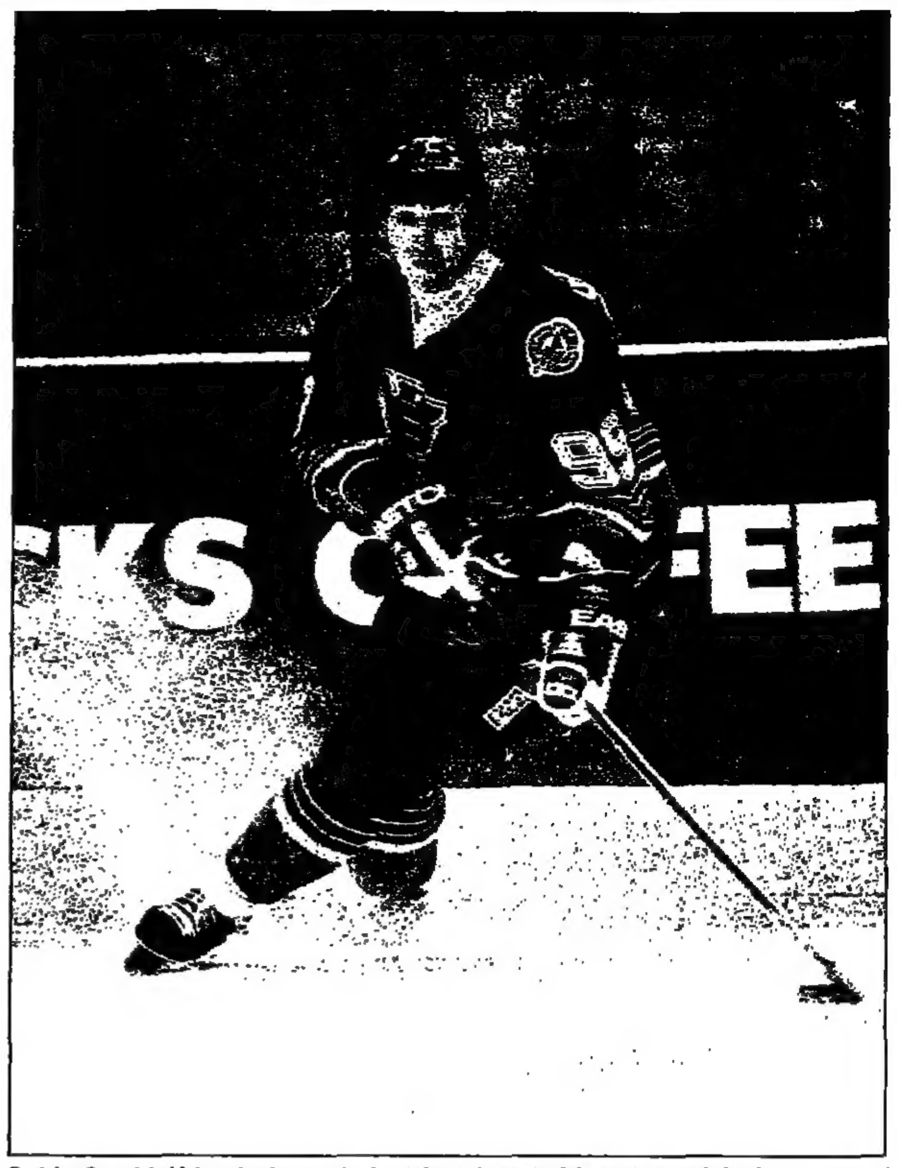
Even if stories of Microsoft setting up a permanent recruiting base in the University of Waterloo seem apocryphal, there is no doubt that a higher proportion of graduates than Canada can afford take up jobs in the US.

Some, of course, return, drawn back by what many argue is a better quality of life. As Bernard Landry of Quebec says: "It is not a catastrophe, because they come back."

The government, however, is campaigning to encourage overseas high technology companies to establish themselves in Canada, pointing to advantages that include tax credits for research and development.

Quebec offers tax credits over and above the federal level. Ericsson, the Swedish telecoms manufacturer, now has more than 1,000 employees in the Montreal region. Lionel Hurtubise, the Canadian company's chief executive says: "We are not considered a foreign company in Montreal."

A comparison of business costs in Canada and the US carried out by the consultancy KPMG showed that for every industry, overall costs are lower in Canada: "Income tax credits for research and development in Canada provide a significant cost advantage over those in US locations."



Gretsky: Canada's high technology sector has taken a leaf out of the hockey star's book *Allsport*

Tax credits, a skilled workforce and spectacular scenery are the limits, however, to which industry minister John Manley will go to attract high technology industries to Canada. He is not in the business of buying jobs.

He says: "I am adamantly opposed to governments offering cheques to companies to situate themselves in a country. It is not a pretty sight and I am strongly opposed to the practice."

"I do not think that a jurisdiction that attracts investment that way can provide a stable climate for technological development."

NORTHERN TELECOM • by Alan Cane

Faith placed in future of the Web

The company is planning another transformation centred on the internet

Northern Telecom, Canada's leading communications group, has proved adept at corporate metamorphosis in pursuit of new opportunities. Now it is hoping to reinvent itself once more to exploit the explosive growth of the internet and the advent of the connected society.

With more than a century of research and manufacturing experience, its place among the world's leading telecommunications companies is assured. Nortel employs some 73,000 people worldwide. It turns over more than $15bn a year and spends more than $1bn on research and development each year.

Its headquarters in a former switch factory Brampton, Ontario, now remodelled as a small town with streets, shops and municipal services, has become a place of pilgrimage for managers seeking an insight into Nortel's corporate culture.

Until 1956, however, it was simply a medium-sized affiliate of Western Electric which was itself part of AT&T of the US.

After deciding to go its own way in technology, it made the prescient decision in 1975 to change over to fully digital switching systems. The move took it into the first rank of telecoms manufacturers and gave it a reputation for innovation and enterprise. By 1988, it had taken 42 per cent of the North American market for digital switches, against AT&T's 42.6 per cent.

It was a risky strategy. Peter Newman, in an official history of Nortel, describes the introduction of "Digital World" as a make-or-break decision that could have wiped out much-needed cash flow from existing products.

Now under president and chief executive John Roth, the company is planning another transformation: "from Digital World to webtone." He describes his task as: "How to make the experience of the internet what it should be."

The challenge is substantial. The internet today is slow and insecure with questionable economics. For a manufacturer, however, the prize for success is substantial. Mr Roth points out that the tides of liberalisation and privatisation sweeping the world's telecoms markets are opening up new opportunities.

"Globally, more will be spent on telecoms equipment during this decade than in the 122 years since the invention of the telephone," he told a conference last month. "Almost as many new, significant public networks will be built in the last half of the 1990s as have been built in the past hundred years."

Most, if not all, of these will be optimised for digital data, rather than analogue voice transmission. "Webtone" is the Nortel argot for data networks capable of carrying internet traffic with the same reliability, integrity, security and capacity that is taken for granted in the voice transmission or "dialtone" world.

Roth argues that webtone will mean the immediate, instant availability of web pages, electronic mail, teleconferencing, voice, text files, faxes, videos, home shopping and banking, interactive games and, as he says, "every other kind of digital information."

John Roth: new opportunities

The federal government shares his conviction and is pressing ahead with research into the problems that are likely to be created by widespread electronic commerce. These include the protection of personal information in the electronic shopping mall. Cryptography, which makes transactions secure but which can be used to shield criminal activity, is of particular concern.

Without reliable telecommunications, however, electronic commerce will not be possible. Conventional telecoms networks experience only a few seconds failure a year while data networks measure monthly downtime in hours.

Mr Roth talks of building "solid, bullet-proof networks" for data including internet and intranet traffic".

Douglas Petty, director of internet telephony for Nortel points to the first fruits of the company's new engagement with the internet. Micom Communications, a Nortel subsidiary, has launched a "gateway" obeying internet rules which enables companies to send voice and fax over existing data networks to save on long-distance charges.

Fresh out of the labs is "internet call waiting", software that enables residential customers to make and receive telephone calls over a single line while remaining connected to the internet, and the internet "voice button", which Nortel describes as a bridge between the internet and the conventional telephone network.

Customers visiting a web site click on the "button" icon to be connected directly by telephone to the site owner.

In the UK, Nortel has been working with Norweb Communications on a technology for transmitting the internet into people's homes over electrical power lines.

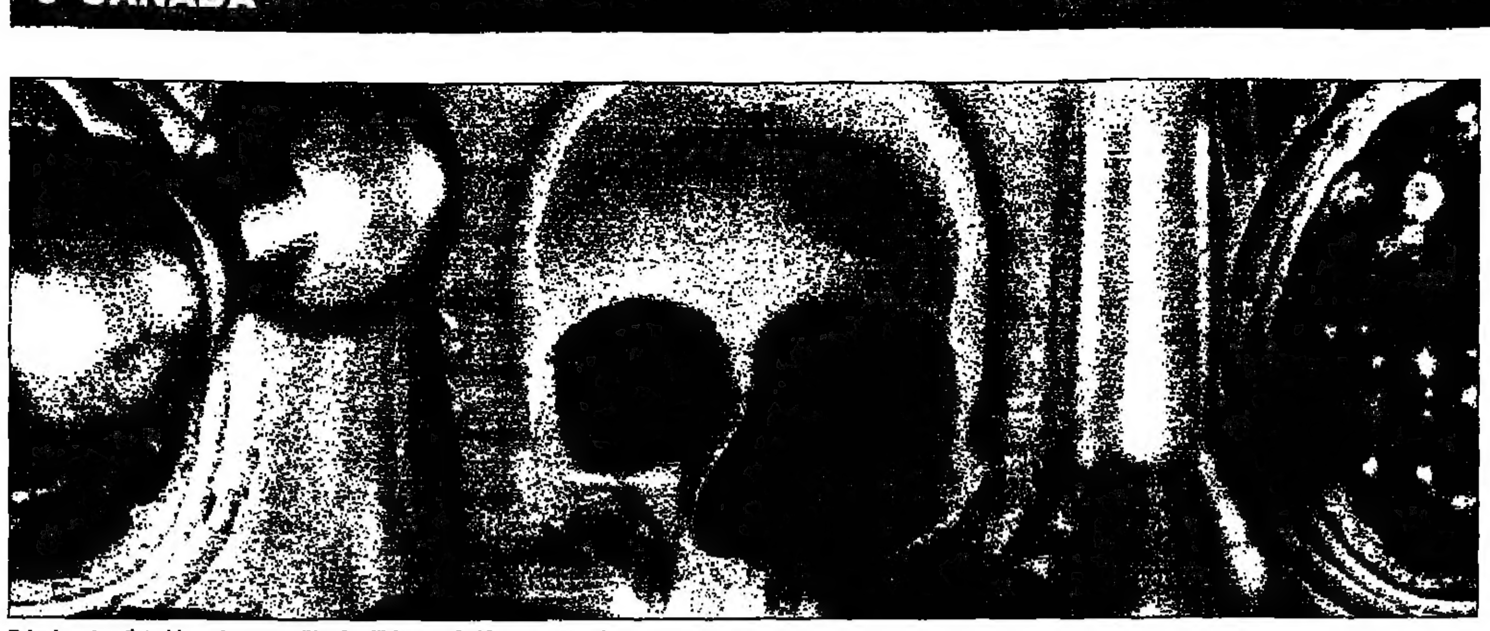
And it is claiming a first for a 1m bit per second modem service, offering an internet connection 17 times quicker than today's fastest conventional modems.

Nortel is not complacent about its internet activities. It is aware that its reputation for prescience is not unscarred. It received a corporate fright when it almost missed the trend to wireless networks and mobile telephony in the late 1980s, and took time and effort to catch up.

The company has also been slow to appreciate the value of entrepreneurial talent within the company. Most of Canada's communications groups can trace their ancestry back to Nortel or one of its subsidiaries. The list includes Newbridge Networks, JDS Fitel, Corel and Mitel.

Only recently has the company started to emulate Newbridge, now its rival, in maintaining an interest in spin-offs. Irving Erbert, vice-president for development says: "We got smart and saw the way to increase our return was to spin off new companies but keep an equity stake. One of the first is Entrust Technologies, a specialist in encryption techniques."

Nortel has its own, unique proving ground in Crystal Bay Telecom, a wholly-owned company providing voice and data services to more than 11,000 employees around its Ottawa laboratories. Almost all its new products are tested on Crystal Bay's 20,500 lines around Ottawa. If Mr Roth's vision of the future is faulty, his own employees will be the first to know.



Bringing the digital bare bones to life. A still from a Softimage animation

ANIMATION • by Alan Cane

The very image of success

An aptitude for graphics technology seems to be embedded in the psyche

If it were not for the rows of high-performance workstations, the darkened classroom would seem like something out of Charles Dickens rather than the leading edge of graphics technology education.

Groups of students cluster round instructors in the warehouse-like room learning how to use powerful software to create the kind of animated, three dimensional images with which the world has become familiar since *Jurassic Park* and *Titanic*.

This is Sheridan College, Oakville, Ontario, one of Canada's leading schools for technology-based graphics design. The students, mainly in their early 20s, come from all over the world. The classes are, according to multimedia instructor Ken Walker, subscribed twice over each year.

The students pay their own way and exhibit a corresponding enthusiasm for their studies. The classroom remains open 24-hours a day, seven days a week and is in constant use.

Sheridan's students represent the practical consequences of one of Canada's most potent technical strengths: computer imaging. The software tools they use are developed by companies such as Montreal-based Softimage or Toronto-based Alias Wavefront.

An ability to design graphic images for display on a computer screen seems to be embedded in the Canadian psyche. TV Ontario, a small public broadcasting service supported on a shoestring by the Ontario provincial government was awarded the Milia d'Or in Cannes this year for the best interactive website for children.

Why Canada should have this facility for screen-based images is not obvious. The software developed by Softimage or Alias Wavefront demands highly developed logical minds and more than a little advanced mathematics: several of the centres of imaging excellence have grown up around university mathematics departments.

There is also a theory, in Quebec at any rate, that the need to translate computer programs written in English into French played a big part in sharpening software skills.

But chance clearly plays its part as well. Softimage, for example, the best known of the country's fleet of digital media specialists was founded by Daniel Langlois in 1986. An artist and film maker interested in special effects, he found 1980s imaging software clumsy and difficult – it was built to be used by engineers rather than artists.

So Softimage was established in an 8ft by 10ft office in downtown Montreal and launched its first product, Creative Environment, now called Softimage 3D, in 1989.

Today, behind a dingy entrance not far from the company's origins, some 150 research and development engineers work in crowded but comfortable offices. The turning point was the purchase of the company in 1994 by the US group Microsoft, the world's largest software house.

Frédéric Beaubien, the company's human resources manager says there were no negative points to the deal. The workforce doubled, the group retained its autonomy and Softimage gained financial security: "When you are selling Jaguars you need strong financial backing," he says, comparing the small but lucrative market for the company's products with demand for expensive foreign cars.

Alias Wavefront takes the ownership question a stage further. It is a combination of two companies, Alias Research of Toronto and Wavefront Technologies of Santa Barbara, California, both acquired in 1995 by Silicon Graphics, the US-based maker of the most popular workstations for graphics research and development.

It has offices in Canada, the US and Europe and employs some 600 people working in industrial design, video games and in the video and film market.

These flagships of Canadian screen imagery cannot rest on their laurels, however. They are in competition with numerous smaller companies on both coasts which are both inventive and able to sell their products at a lower price.

Softimage's animation tools sell for C$30,000 to C$80,000. Alias Wavefront's latest software, capable of conjuring up "the best dinosaur anyone can create today", according to the company's Peter Rice, sells for a mere C$10,000. Both companies have had to reduce their prices to match the competition.

Many believe that companies like Softimage and Alias Wavefront have, of necessity, to form partnerships or alliances with bigger groups if they are to be successful outside Canada.

Vic DiCiccio, vice-president, Communications Information Technology of Ontario, points to one possible reason for this. His organisation, based at the University of Waterloo, is designed to improve the area's information industries through university-industry research partnerships. He believes a key characteristic of the entrepreneur – the drive to amass wealth – is missing from many of the academics who have established commercial companies to exploit their research.

He adds that their primary motivation has been to see their research through to its conclusion, free of the constraints of academia, rather than money. "These are reluctant entrepreneurs," he says. "They are more like missionaries, convinced they can solve the problem."

It means, however, they develop niche products for a narrow market, and need outside support: "It has to come from a company with a letterhead," says Mr DiCiccio.

Nobody could accuse Donnie Snow, vice president of McKenzie College, of a lack of entrepreneurial zeal. A private college, based in Halifax, Nova Scotia, McKenzie offers residential and distance learning courses in graphic design.

Mr Snow, who has many conventional start-ups under his belt, founded the college as a business venture. He looks after the management side and leaves education to the educators.

He is fascinated by the idea that eventually every written word will have to be available on the internet: "Our students are the ones that will design the pages. Everybody, every document in the world is going to be put on the Web and somebody has to put them on. It will be a phenomenal job."

Between Mr Snow's high technology concept of education and Sheridan College's rows of Silicon Graphics terminals, Canada's future in the graphics computer arts seems assured.

COMMUNICATIONS • by Alan Cane

Sharing risks and rewards

Partnerships and alliances are essential to offset the small domestic market

Canada's communications and information technology sector is distinguished by partnerships and alliances ranging from the idealistic to the iconoclastic.

These are critically important for entrepreneurial Canadian companies. The home market is too small to act as a springboard into the global pool. Once there, the protection and reassurance of a larger partner can make the difference between success and failure.

On the other hand, even the largest companies, within Canada and outside, are finding it difficult to carry out research and development across the board. The range and speed of change are just too great.

Newbridge Networks, the data networking group which with revenue last year of C$1.38bn is one of Canada's leading high-technological groups, has for the past six years been pioneering an innovative answer called the "affiliates strategy".

Some 18 companies with combined annual sales of C$220m in the Kanata region of Ontario are members of the programme. Newbridge provides common services such as manufacturing, payroll and human resources to the group and holds a stake of between 25 and 49 per cent in each.

Affiliates carry out their own research and development on topics which must be telecoms-related and synergistic with Newbridge's own products.

Risk is shared and the overall level of research and development increased. There is the potential significantly to reduce the time taken to bring new products to market.

Affiliates include Timestep, which develops software guaranteeing the secure transport of data through a communications network, Crosskeys, which makes network management software, and Castleton, manufacturer of business multimedia access products.

The programme incorporates strict business discipline. In the first year of membership products are developed and brought to market. By year three, solid revenues and profitability are expected with an initial public offering expected at an unspecified period afterwards.

The market capitalisation of the affiliates programme is now C$1.2bn and it is attracting considerable interest from outside.

Northern Telecom, Newbridge's much bigger rival, is starting a similar programme.

To the east, in Halifax, Nova Scotia, the Telecom Applications Research Alliance (Tara) represents the iconoclastic end of the spectrum. Established in 1995, it is a unique combination of private voice and data networking laboratory – with a C$7m Nortel DMS-100 voice and data switch as part of the fittings – and a funding and mentoring programme which aims to bring together small and large firms.

It aims to make sufficient return on its investments in member projects to become self-sufficient by 2000.

The Nortel switch, typical of the kind found in many North American networks, enables members to ensure their new telecoms applications will be compatible with the public system.

> The market capitalisation of the affiliates programme is now C$1.2bn

The Canadian subsidiary of Cisco Systems, the US data networking group, has installed an internet working laboratory that will allow members to test internet or intranet applications.

Tara is at its most iconoclastic, however, when deciding how to allot its investment funds to members' projects.

Decisions are made very quickly. A company will know within four to six weeks of application whether Tara intends to invest in it.

Essentially, the decision is made by a tiny committee headed by Wayne Bussey, director of programmes and member services, after the applicants have endured a bruising few hours of interrogation.

"We will make our decision to go or not go in those two to three hours," says Brian Penney, Tara president. "We have no interest in big, thick business plans. We think they are a waste of time."

All the visual aids the applicants are allowed is a few slides. A funding decision has to go to Tara's investment committee but it has no power of veto.

The return to Tara comes as royalties from commercialised products or equity in joint ventures.

Scale and centralised decision making can clearly play a part in innovation. The maritime province of New Brunswick on the eastern seaboard is planning to capture "more than its fair share" of the fruits of the technology revolution through a far-reaching information strategy.

It believes the information highway will make "have-not" jurisdictions competitive. It plans to export "New Brunswick in a Box" – the expertise to create and exploit clusters of IT companies – to the developing world.

The province has had the advantage of an administrative system through which the provincial government has direct control of the schools, hospitals and government services.

It has been comparatively easy to decree that all the schools in the province should be connected to the internet. Similarly, wiring the province did not present a huge problem.

Brian Freeman, director of the information highway secretariat, says: "There is more power at the end of a telephone line in a farmhouse in New Brunswick than in the offices of most Wall Street brokers."

The aim of the secretariat is to create 5,000 new jobs within five years in information technology in the province.

The establishment of IT clusters, groups of companies which foster the development of world class players, is at the heart of the scheme.

An effective telecoms infrastructure is, of course, essential to underpin the elements of New Brunswick's strategy to build and deliver technology as an enabling tool for its citizens.

This is provided by New Brunswick Telecoms, a "digital midget" as it describes itself but the key to the province's tele-medicine, IT employment, tele-education and other networks.

Mr Freeman points out that almost 50 administrations or representatives of foreign countries have visited New Brunswick in the past 18 months, while every leading telecoms operator has visited NBTel.

Now it is time, he says, to market New Brunswick as a model for developing countries and as a "living laboratory", demonstrating the development of technology tools for the well being of its citizens.

TELECOMMUNICATIONS • by Scott Morrison

Race for market share

Convergence is the name of the game as the market undergoes rapid change

Canada's telecommunications sector is on the verge of a tremendous shake up that will force companies to converge technologies and consolidate market share as they battle to position themselves in a rapidly changing market.

The increasingly competitive nature of global telecommunications has begun to force Canadian groups to stake out larger markets in which they can offer a wider range of services. The numbers of scenarios are infinite, given the number of companies that provide local telephony, long distance, cable service, wireless communications and internet access.

"We are in an industry that is looking for its future. We could be in confusion for many years," says Charles Sirois, chief executive of Teleglobe, the Canadian international network operator.

The structure of Canada's telecommunications sector all but crumbled recently when Telus, the regional telephone service provider in Alberta, announced it was in talks to acquire AT&T Canada Long Distance Services. Had Telus acquired AT&T Canada, it would have taken control of a national fibre optic network through which to route its domestic long distance traffic, putting the Alberta carrier into direct competition with its Stentor partners.

That would have significantly altered the long-standing agreement among Stentor companies, under which they operate exclusively within their service areas and co-operate on long distance traffic.

Negotiations between Telus and AT&T subsequently broke down, but the talks revealed cracks within the 11 member Stentor alliance of regional telephone companies that many industry observers say are irreparable.

The ante was upped a few weeks later when Call-Net, the parent of Sprint Canada, launched a hostile C$1.8bn bid for Fonorola, the long distance carrier which services business and institutional customers. Fonorola has rebuffed the offer, but industry observers see these takeover moves as the first of many.

Telecom share prices have soared in recent weeks as investors speculate who will move on whom. CIBC Wood Gundy, the Canadian brokerage, suggests that the first wave will include mergers and acquisitions among companies from different industry sectors, such as local and long distance service providers, followed by a second series of transactions as the larger groups expand into new markets such as cable television.

The ultimate shape of Canada's future telecommunications sector will undoubtedly be shaped by the consumer's need for quick, reliable and convenient access to voice, data and video communications. Canada's telecom regulators have moved reasonably quickly towards liberalising the industry, beginning with the deregulation of long distance service in 1992. That has led to a loss among Stentor companies of almost 40 per cent of their long distance traffic to AT&T Canada, Sprint Canada and other smaller carriers.

Upstart service providers pushing for a further regulatory relaxation were rewarded in May 1997, when the Canadian Radio-Television and Telecommunications Commission (CRTC) established regulatory guidelines under which local telephone service providers, long distance carriers and cable television companies could compete in each other's market.

That ruling was recently expanded upon when the CRTC permitted telecommunications groups to bundle wireline and wireless services into a single package for consumers.

Canada's large regional telephone companies, the former monopolies, are seen to be in the best position to take advantage of the emerging opportunities. Dominant in local and long distance markets and in some cases highly profitable, they have the best foundation from which to build for the future. And regional carriers such as Bell Canada, the nation's largest, have the financial resources to make the necessary investment and acquisitions.

Some observers, however, suggest that the large carriers could be too large to respond quickly to moves by smaller, yet more nimble, competitors. Jean Monty, the new chief executive of BCE, Bell Canada's parent, recently said the telephone company will invest in new technology and focus increasing revenues by providing internet services, satellite television and wireless communications to core residential and business customers.

BCE will invest C$750m to launch a new national company to provide high speed data and internet service to business customers, a market it forecasts will grow to C$3bn by 2001. These additional services will be packaged under the familiar Bell name and provide users with a one-stop shopping alternative.

BCE's might is a disadvantage on the regulatory front. Regulators would likely frown on any BCE takeover attempt that would increase its customer base, for that would run counter to the CRTC's aim of fostering competition in the sector.

BCE, however, has not ruled out future acquisitions and some analysts suggest the company will eventually move into the US market.

Industry sources expect the sector will remain in flux for the next 24 months or so before three or four dominant carriers emerge.

But aggressive price competition will continue as telecommunications groups seek to solidify their market positions.

Such a scenario will lead to cheaper rates for Canadian consumers, who have shown a willingness to change service providers when they can obtain lower rates elsewhere.

It will clearly be a challenging period for Canadian telecommunications companies long used to a stable, comfortable operating environment.